# *Principles of Macroeconomics 7th edition Frank Test Bank*

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*Principles of Macroeconomics, 7e* **(Frank)**
**Chapter 2 Comparative Advantage**

1) An individual has an absolute advantage in producing pizzas if that individual:
A) has a lower opportunity cost of producing pizzas than anyone else.
B) can produce more pizzas in a given amount of time than anyone else.
C) has a higher opportunity cost of producing pizzas than anyone else.
D) charges the lowest price for pizzas.

2) If Al has an absolute advantage over Beth in preparing meals, then:
A) it takes Al more time to prepare a meal than Beth.
B) the problem of scarcity applies to Beth but not to Al.
C) Al's opportunity cost of preparing a meal is lower than is Beth's.
D) Al can prepare more meals in a given time period than Beth.

3) If Les can produce two pairs of pants per hour while Eva can produce one pair per hour, then it must be true that:
A) Les has a comparative advantage in producing pants.
B) Les has an absolute advantage in producing pants.
C) Eva has a comparative advantage in producing pants.
D) Les has both comparative and absolute advantage in producing pants.

4) If a nation can produce a more computers per year than any other nation, that nation has a(n) _____ advantage in the production of computers.
A) comparative
B) absolute
C) relative
D) natural

5) If you have a comparative advantage in a particular task, then:
A) you complete it faster than other people.
B) you give up more to accomplish that task than do others.
C) you give up less to accomplish that task than do others.
D) you have specialized in that task, while others have not.

6) Larry has a comparative advantage over his classmates in writing term papers if he:
A) can write term papers faster than his classmates.
B) has an absolute advantage in writing term papers.
C) always earns an A on his term papers.
D) has a lower opportunity cost of writing term papers than his classmates.


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7) If a nation has the lowest opportunity cost of producing a good, that nation has a(n) _____ in the production of that good.
A) comparative advantage
B) absolute advantage
C) comparative advantage and an absolute advantage
D) absolute advantage and possibly a comparative advantage

8) Which of the following statements is true?
A) Absolute advantage implies comparative advantage.
B) Comparative advantage does not require absolute advantage.
C) Absolute advantage requires comparative advantage.
D) Comparative advantage requires absolute advantage.

9) If Jane can produce 3 pairs of shoes per hour, while Bob can produce 2, then _____ has a(n) _____ advantage in producing shoes.
A) Jane; absolute
B) Jane; comparative
C) Bob; absolute
D) Bob; comparative

10) According to the accompanying table, Martha has the absolute advantage in making:

| | **Time to Make a Pie** | **Time to Make a Cake** |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies.
B) neither pies nor cakes.
C) cakes.
D) both pies and cakes.

11) According to the accompanying table, Julia has the absolute advantage in making:

| | **Time to Make a Pie** | **Time to Make a Cake** |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies.
B) neither pies nor cakes.
C) cakes.
D) both pies and cakes.


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12) Refer to the accompanying table. Martha's opportunity cost of making of a pie is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 3/4 of a cake.
B) 4/3 of a cake.
C) 8 cakes.
D) 80 cakes.

13) Refer to the accompanying table. Martha's opportunity cost of making a cake is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 3/4 of a pie.
B) 4/3 of a pie.
C) 6 pies.
D) 60 pies.

14) Refer to the accompanying table. Julia's opportunity cost of making a pie is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 60 cakes.
B) 6 cakes.
C) 6/5 of a cake.
D) 5/6 of a cake.


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15) Refer to the accompanying table. Julia's opportunity cost of making a cake is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 60 cakes.
B) 6 cakes.
C) 6/5 of a cake.
D) 5/6 of a cake.

16) Refer to the accompanying table. _____ has the comparative advantage in making pies and _____ the comparative advantage in making cakes.

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) Martha; Martha
B) Julia; Julia
C) Martha; Julia
D) Julia; Martha

17) Refer to the accompanying table. Based on their comparative advantage, Martha should specialize in making _____ while Julia should specialize in making _____.

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies; cakes
B) cakes; pies
C) neither pies nor cakes; both pies and cakes
D) both pies and cakes; neither pies nor cakes


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18) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. What is the opportunity cost to Dan of making a sandwich?
A) 1/3 of a smoothie
B) 3 smoothies
C) 15 smoothies
D) 5 smoothies

19) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. Which of the following statements is correct?
A) Dan has the comparative advantage in smoothies, but Tracy has the absolute advantage in smoothies.
B) Dan has the comparative and absolute advantage in sandwiches.
C) Dan has the comparative and absolute advantage in smoothies.
D) Dan has the comparative advantage in sandwiches, but Tracy has the absolute advantage in sandwiches.

20) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. Which of the following statements is correct?
A) Tracy should specialize in sandwiches and smoothies.
B) Dan should specialize in smoothies, and Tracy should specialize in sandwiches.
C) Dan should specialize in sandwiches, and Tracy should specialize in smoothies.
D) Dan should specialize in both sandwiches and smoothies.

21) Suppose it takes Paul 3 hours to bake a cake and 2 hours to mow the lawn, and suppose it takes Tom 2 hours to bake a cake and 1 hour to mow the lawn. Which of the following statements is correct?
A) Paul has the absolute advantage in baking cakes.
B) Paul has the comparative advantage in mowing the lawn.
C) Paul has the comparative advantage in baking cakes.
D) Paul has the absolute advantage in mowing the lawn.

22) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. Which of the following statements is correct?
A) Cathy has a comparative advantage in pies, and Lewis has an absolute advantage in pies.
B) Cathy has a comparative and absolute advantage in pies.
C) Lewis has a comparative and absolute advantage in pies.
D) Lewis has a comparative advantage in pies, and Cathy has an absolute advantage in pies.


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23) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. Which of the following statements is correct?
A) Cathy should specialize in both pies and cakes.
B) There are no gains from specialization and trade.
C) Lewis should specialize in pies, and Cathy should specialize in cakes.
D) Cathy should specialize in pies, and Lewis should specialize in cakes.

24) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. What is the opportunity cost to Cathy of making a cake?
A) 2/3 of a pie.
B) 1 pie.
C) 1.5 pies.
D) 1.33 pies.

25) Refer to the accompanying table. According to the table, Corey has the absolute advantage in:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) making pizza.
B) neither making nor delivering pizza.
C) delivering pizza.
D) making and delivering pizza.

26) Refer to the accompanying table. According to the table, Pat has the absolute advantage in:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) making pizza.
B) neither making nor delivering pizza.
C) delivering pizza.
D) making and delivering pizza.


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27) Refer to the accompanying table. Corey's opportunity cost of making of a pizza is delivering:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 2 pizzas.
B) 3/2 of a pizza.
C) 2/3 of a pizza.
D) 1/2 of a pizza.

28) Refer to the accompanying table. Corey's opportunity cost of delivering of a pizza is making:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 6 pizzas.
B) 12 pizzas.
C) 2 pizzas.
D) 1/2 of a pizza.

29) Refer to the accompanying table. Pat's opportunity cost of making a pizza is delivering:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 3 pizzas.
B) 2 pizzas.
C) 3/2 of a pizza.
D) 2/3 of a pizza.


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30) Refer to the accompanying table. Pat's opportunity cost of delivering a pizza is making:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 12 pizzas.
B) 10 pizzas.
C) 3/2 of a pizza.
D) 2/3 of a pizza.

31) Refer to the accompanying table. _____ has the comparative advantage in making pizza, and _____ has the comparative advantage in delivering pizza.

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) Corey; Corey
B) Pat; Pat
C) Pat; Corey
D) Corey; Pat

32) Refer to the accompanying table. Based on their comparative advantages, Pat should specialize in _____, and Corey should specialize in _____.

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) delivering pizza; making pizza
B) making pizza; delivering pizza
C) neither making pizza nor delivering pizza; both making pizza and delivering pizza
D) both making pizza and delivering pizza; neither making pizza nor delivering pizza


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33) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | **Rooms Cleaned Per Hour** | **Meals Cooked Per Hour** |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

Which of the following is true?
A) Lou has both an absolute advantage and a comparative advantage over Alex in both tasks.
B) Alex has a comparative advantage over Lou in cleaning.
C) Lou has a comparative advantage over Alex in cleaning.
D) Alex has both an absolute advantage and a comparative advantage over Lou in both tasks.

34) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | **Rooms Cleaned Per Hour** | **Meals Cooked Per Hour** |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

If Alex and Lou work out an efficient arrangement for these two chores, then under that arrangement:
A) Alex and Lou each would do half of the cooking and half of the cleaning.
B) Alex would do all of the cleaning, while Lou would do all the cooking.
C) Lou would do all of the cleaning and all of the cooking.
D) Lou would do all of the cleaning, while Alex would do all of the cooking.


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35) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | Rooms Cleaned Per Hour | Meals Cooked Per Hour |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

For Alex, the opportunity cost of cleaning one room is making _____ meal(s); for Lou the opportunity cost of cleaning one room is making _____ meal(s).
A) 4; 4
B) 1; 4/5
C) 1; 5/4
D) 3; 5

36) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, _____ has an absolute advantage in selling cars and _____ has an absolute advantage in selling trucks.
A) Joe; Joe
B) Larry; Ralph
C) Ralph; Larry
D) Larry; Joe


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37) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Larry's opportunity cost of selling a truck is selling:
A) 10 cars.
B) 1/2 of a car.
C) 1 car.
D) 2 cars.

38) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Joe's opportunity cost of selling a truck is selling:
A) 9 cars.
B) 1 car.
C) 4 cars.
D) 1/3 of a car.


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39) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Ralph's opportunity cost of selling a truck is selling:
A) 4 cars.
B) 1/3 of a car.
C) 3 cars.
D) 1/4 of a car.

40) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Joe's opportunity cost of selling a car is _____ than Ralph's, and Joe's opportunity cost of selling a car is _____ than Larry's.
A) less; greater
B) greater; less
C) less; less
D) greater; greater


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41) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, _____ should specialize in truck sales, and _____ should specialize in car sales.
A) Joe; Ralph
B) Ralph; Larry
C) Larry; Ralph
D) Larry; Joe

42) The textbook notes that the last time a major league batter hit .400 was in 1941. This is because:
A) the average quality of batters has fallen.
B) the league imposes harsh penalties for steroid use.
C) specialization by pitchers, infielders, and outfielders has made it harder for batters to hit.
D) baseball diamonds have become larger.

43) Ginger and Maryann are lost in the jungle, where the only things to eat are mangoes and fish. Ginger can gather more mangoes per hour than Maryann and can also catch more fish per hour than can Maryann. Therefore:
A) there are no gains to specialization and trade for Ginger.
B) there are no gains to specialization and trade for Maryann.
C) Maryann should specialize in the activity for which she has a comparative advantage.
D) Ginger should specialize in the activity for which she has an absolute advantage.

44) In general, individuals and nations should specialize in producing those goods for which they have a(n):
A) absolute advantage.
B) comparative advantage.
C) absolutely comparative advantage.
D) absolute advantage and a comparative advantage.


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45) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. What is Leo's opportunity cost of making a pound of fudge?
A) 0.8 of a pound of toffee
B) 1.25 pounds of toffee
C) 4 pounds of toffee
D) 5 pounds of toffee

46) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. Which of the following statements is correct?
A) Ana has both an absolute advantage and the comparative advantage in fudge.
B) Ana has the comparative advantage in toffee, but Leo has the absolute advantage in toffee.
C) Ana has the comparative advantage in fudge, but Leo has the absolute advantage in fudge.
D) Leo has both the absolute advantage and the comparative advantage in fudge.

47) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. According to The Principle of Comparative Advantage, Ana and Leo will be able to produce more overall if:
A) Ana specializes in fudge and Leo specializes in toffee.
B) Leo specializes in fudge and Ana specializes in toffee.
C) both Leo and Ana specialize in fudge.
D) the Principle of Comparative Advantage does not hold in this example.

48) When Thurston catches 10 fish a day, he can gather a maximum of 40 coconuts, and when he catches 20 fish a day, he can gather a maximum of 30 coconuts. If Thurston's opportunity cost of producing each good increases as he produces more of it, and he decides to catch 30 fish a day, then the maximum number of coconuts he can gather must be:
A) equal to 20.
B) greater than 20.
C) greater than 10.
D) less than 20.


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49) Suppose Karl divides his time between making birdhouses and growing artichokes. Karl's friend recently gave Karl some new woodworking tools that greatly reduced the amount of time it takes Karl to make each birdhouse, but the new tools had no impact on the amount of time it takes Karl to grow artichokes. Thus, the new tools _____ Karl's opportunity cost of growing artichokes.
A) had no effect on
B) decreased
C) increased
D) halved

50) In general, individuals and nations should specialize in producing goods _____ other individuals or nations.
A) that they can produce more quickly than
B) that they can produce less quickly than
C) for which they have a lower opportunity cost compared to
D) for which they have a higher opportunity cost compared to

51) A country is most likely to have a comparative advantage in the production of cars if:
A) it imports most of the raw materials necessary to produce cars.
B) its citizens prefer driving cars to other forms of transportation.
C) it has strict environmental protection laws governing automobile emissions.
D) it has a relative abundance in the natural resources needed to produce cars.

52) The United States generally has a comparative advantage in the development of technology because it has:
A) large amounts of natural resources.
B) a disproportionate share of the world's best research universities.
C) the greatest need for new technology.
D) patent laws, which no other country has.

53) The emergence of English as the de facto world language _____ a comparative advantage in the production of books, movies and popular music.
A) has given English-speaking countries
B) has given non-English-speaking countries
C) has no effect on which country has
D) has given all countries

54) The United States was unable to maintain its dominance in the production of televisions because:
A) the highly technical skills necessary to produce televisions are greater in other countries.
B) the raw materials necessary to build televisions became scarce in the United States.
C) the product designs evolved too rapidly for engineers in the United States to keep up.
D) automated techniques allowed production to be outsourced to countries with less-skilled workers.


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55) A graph that illustrates the maximum amount of one good that can be produced for every possible level of production of the other good is called a:
A) production possibilities curve.
B) consumption possibilities curve.
C) production function.
D) supply curve.

56) The production possibilities curve shows:
A) the minimum amount of one good that can be produced for every possible production level of the other good.
B) how increasing the resources used to produce one good increases the production of the other good.
C) the maximum amount of one good that can be produced for every possible production level of the other good.
D) how increasing the production of one good allows production of the other good to also rise.

57) Points that lie outside the production possibilities curve are _____, and points that lie inside the production possibilities curve are _____.
A) efficient; inefficient
B) inefficient; efficient
C) unattainable; attainable
D) attainable; unattainable

58) Points that lie beneath the production possibilities curve are:
A) unattainable and inefficient.
B) unattainable but efficient.
C) attainable but inefficient.
D) attainable and efficient.

59) If a country is producing at point where an increase in the production of one good requires a reduction in the production of another good, then it must be producing at an:
A) inefficient point.
B) efficient point.
C) unattainable point.
D) undesirable point.

60) Suppose Colin brews beer and makes cheese. If Colin can increase his production of beer without decreasing his production of cheese, then he is producing at an:
A) inefficient point.
B) efficient point.
C) unattainable point.
D) ideal point.


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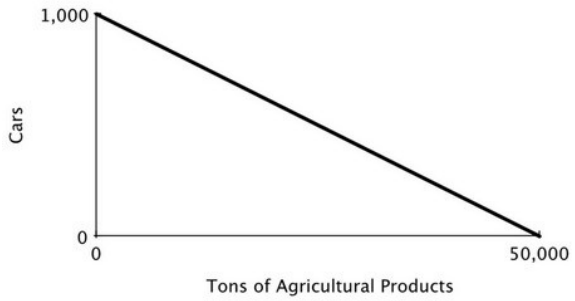
61) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. Suppose that Ana and Leo decide to work together as a team. Can they produce 2 pounds of fudge and 4.5 pounds of toffee each hour?
A) Yes, this point is both attainable and efficient.
B) No, this point is not attainable.
C) Yes, this point is attainable, but inefficient.
D) No, this point is not attainable and inefficient.

62) The downward slope of the production possibilities curve illustrates the:
A) Scarcity Principle.
B) Cost-Benefit Principle.
C) Incentive Principle.
D) Principle of Comparative Advantage.

63) The accompanying figure shows the production possibilities curve for the island of Genovia:




The opportunity cost of producing a car in Genovia is:
A) 5,000 tons of agricultural products.
B) 500 tons of agricultural products.
C) 5 tons of agricultural products.
D) 50 tons of agricultural products.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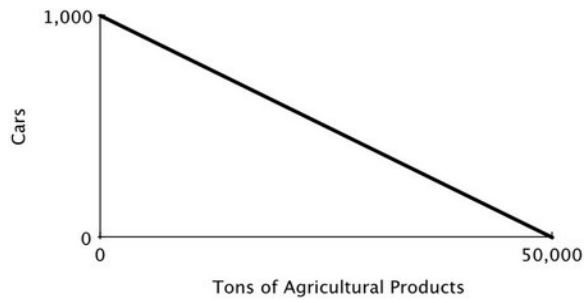
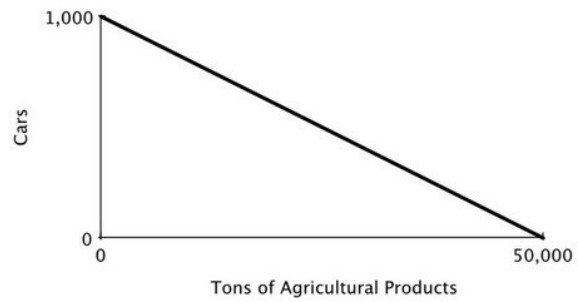
64) The accompanying figure shows the production possibilities curve for the island of Genovia:




The opportunity cost of producing one ton of agricultural products in Genovia is:
A) 1,000 cars.
B) 1 car.
C) 1/5 of a car.
D) 1/50 of a car.

65) The accompanying figure shows the production possibilities curve for the island of Genovia:




If 500 cars are produced in Genovia, a maximum of _____ tons of agricultural products can be produced.
A) 50,000
B) 25,000
C) 45,000
D) 40,000

66) The slope of a production possibilities curve is _____ because _____.
A) negative; producing more of one good requires producing less of the other
B) negative; producing less of one good requires producing less of the other
C) positive; producing more of one good requires producing more of the other
D) positive; producing more of one good requires producing less of the other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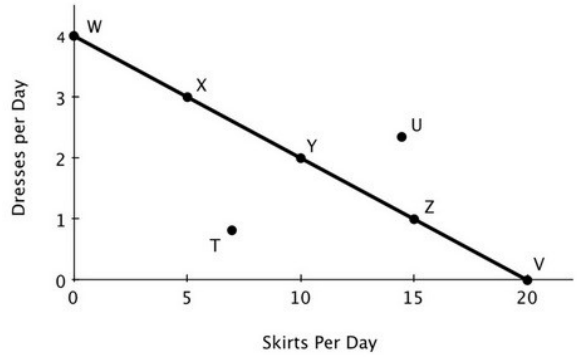
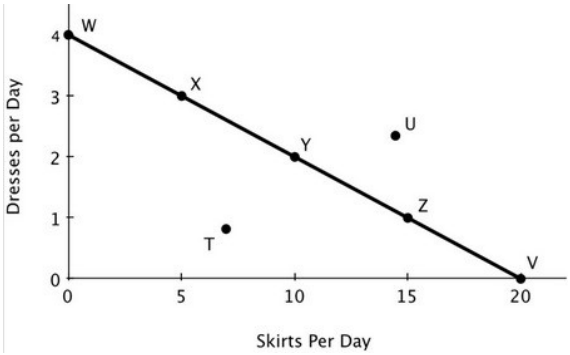
67) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




The maximum number of dresses that Becky can make in a day is represented by point:
A) *U*
B) *T*
C) *V*
D) *W*

68) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




The maximum number of skirts that Becky can make in a day is represented by point:
A) *U*
B) *T*
C) *V*
D) *Z*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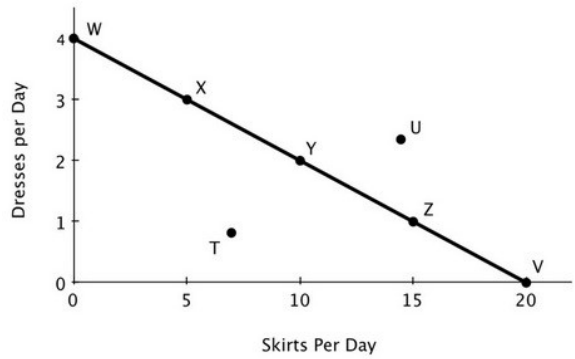
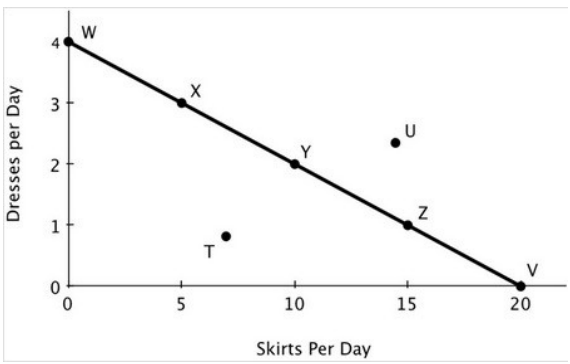
69) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Point *U* is:
A) attainable.
B) efficient.
C) unattainable.
D) inefficient.

70) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Of the labeled points, only _____ are attainable.
A) *T* and *U*
B) *X*, *Y*, and *Z*
C) *W*, *X, Y*, *Z*, and *V*
D) *W*, *X*, *Y*, *Z*, *V*, and *T*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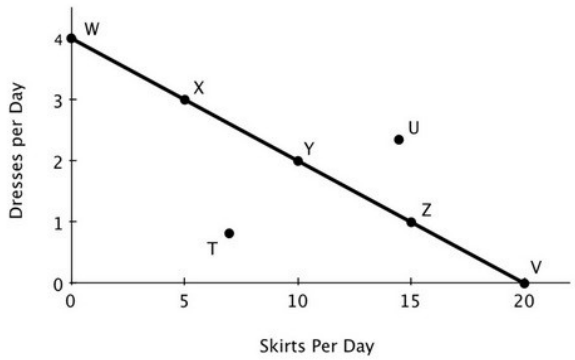
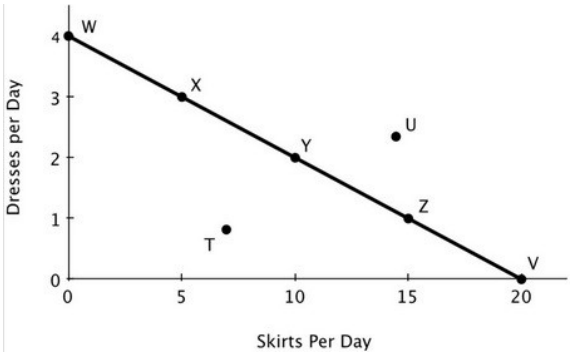
71) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Of the labeled points, only _____ are efficient.
A) *T* and *U*
B) *X*, *Y*, and *Z*
C) *W*, *X, Y*, *Z*, and *V*
D) *W*, *X*, *Y*, *Z*, *V*, and *T*

72) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Point *T* is:
A) attainable.
B) efficient.
C) both attainable and efficient.
D) neither attainable nor efficient.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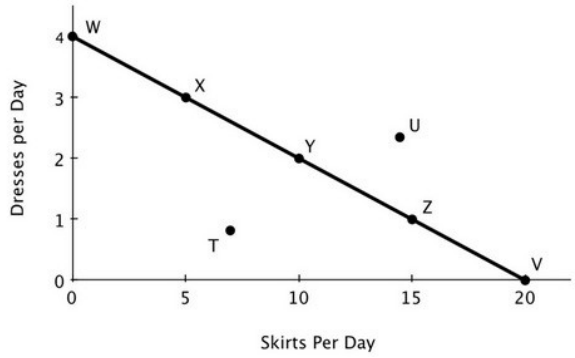
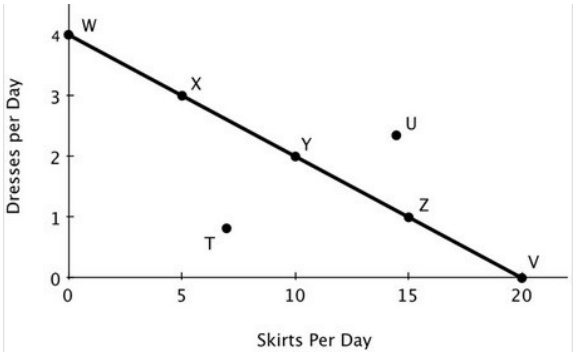
73) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Point *Y* is _____, and point *V* is _____.
A) efficient; inefficient
B) inefficient; efficient
C) efficient; efficient
D) inefficient; inefficient

74) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




Relative to point *X*, at point *Y*:
A) more dresses and more skirts are produced.
B) more skirts and fewer dresses are produced.
C) more dresses and fewer skirts are produced.
D) fewer skirts and fewer dresses are produced.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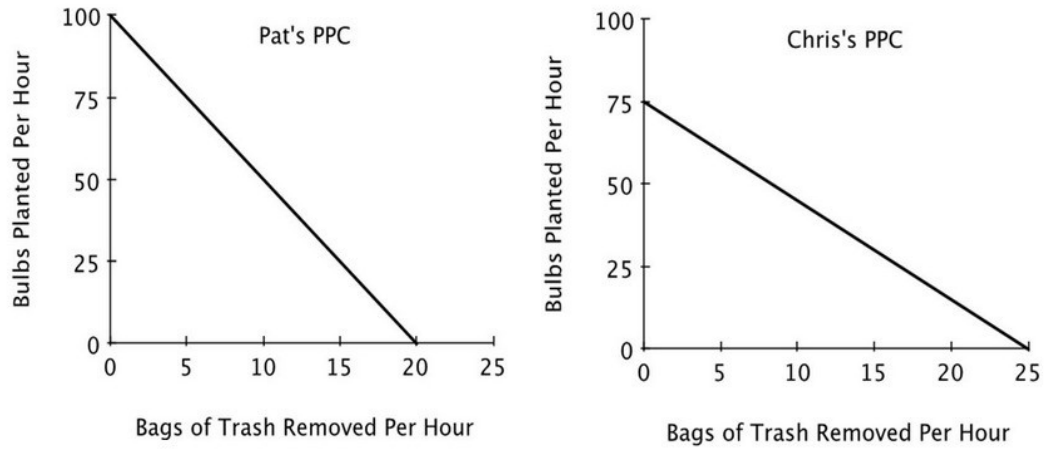
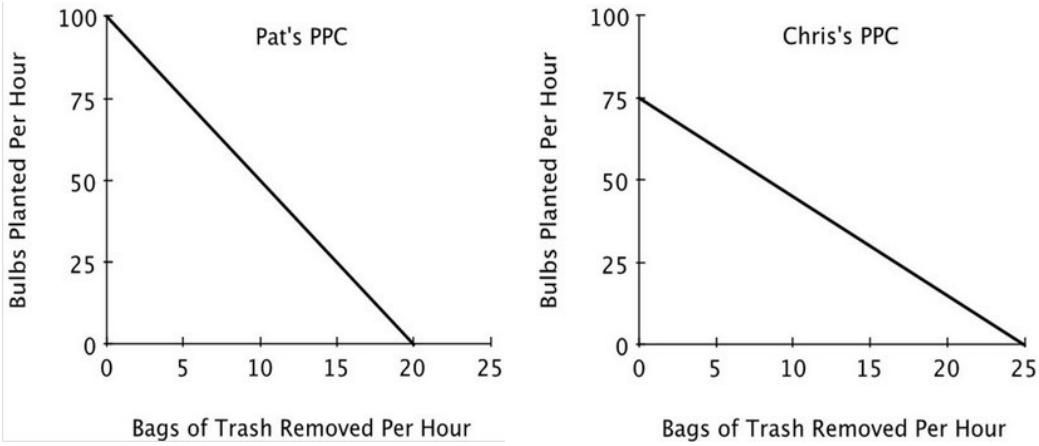
75) Refer to the accompanying figure. For Pat, the opportunity cost of removing one bag of trash is planting:




A) 100 bulbs.
B) 5 bulbs.
C) 1/100 of a bulb.
D) 1/5 of a bulb.

76) Refer to the accompanying figure. For Pat, the opportunity cost of planting one bulb is removing:




A) 20 bags of trash.
B) 5 bags of trash.
C) 1/20 of a bag of trash.
D) 1/5 of a bag of trash.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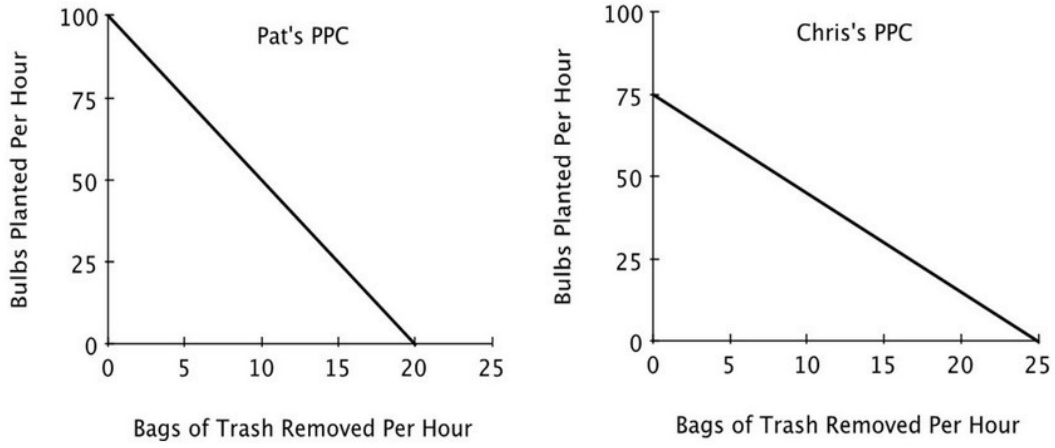
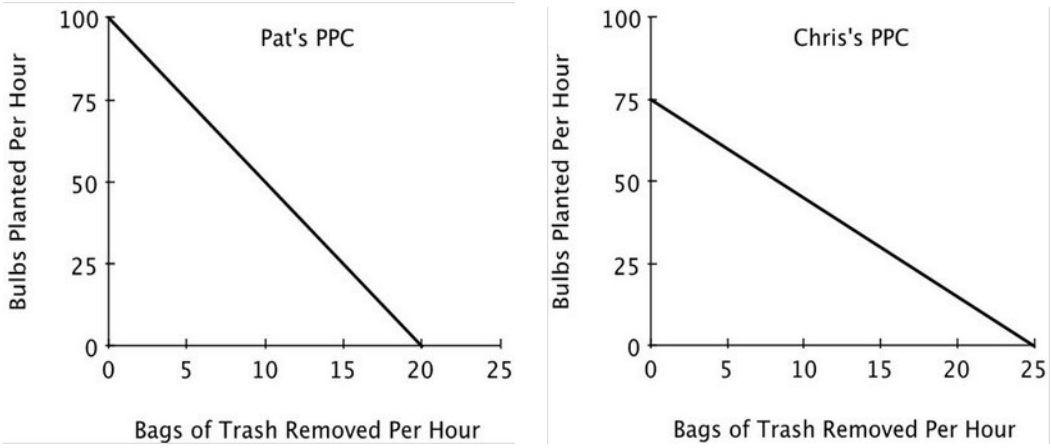
77) Refer to the accompanying figure. For Chris, the opportunity cost of removing one bag of trash is planting:




A) 25 bulbs.
B) 1/25 of a bulb.
C) 3 bulbs.
D) 1/3 of a bulb.

78) Refer to the accompanying figure. For Chris, the opportunity cost of planting one bulb is removing:




A) 25 bags of trash.
B) 1/25 of a bag of trash.
C) 3 bags of trash.
D) 1/3 of a bag of trash.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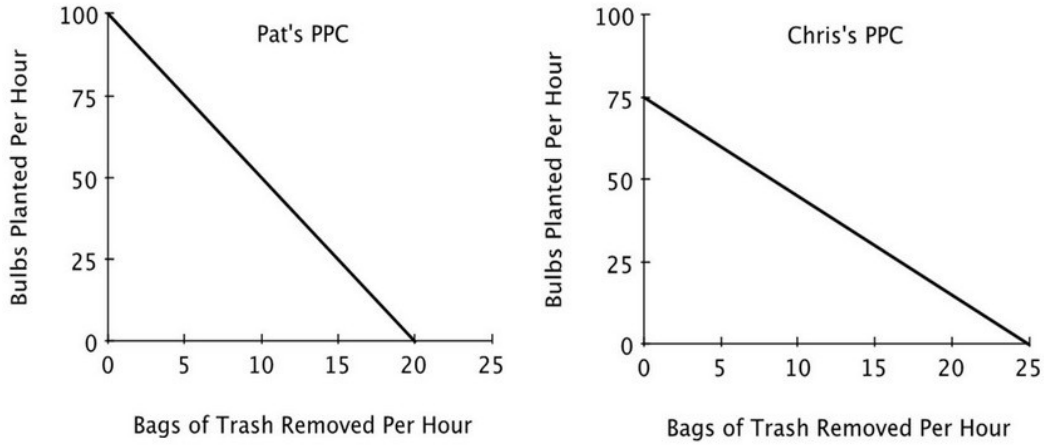
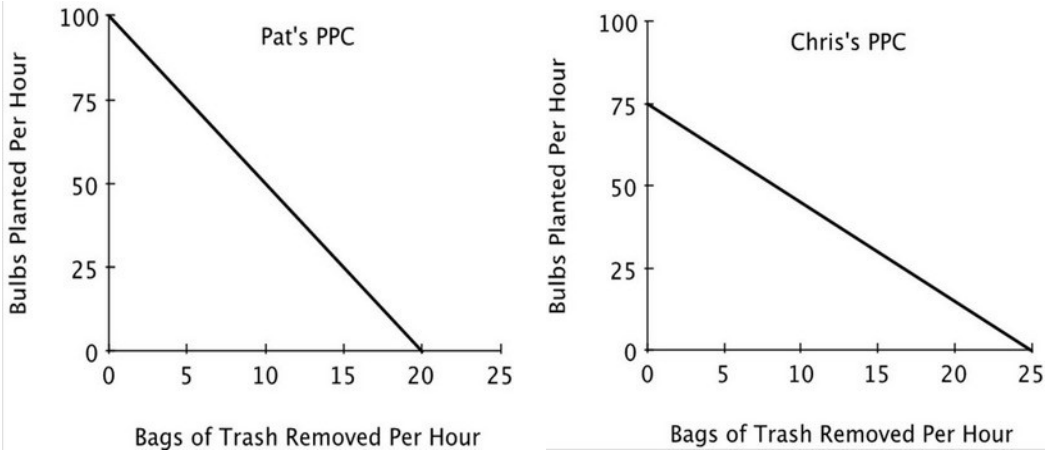
79) Refer to the accompanying figure. If Pat and Chris were to specialize in the task in which each has a comparative advantage:




A) Chris would plant bulbs and Pat would remove trash.
B) Chris would remove trash and Pat would plant bulbs.
C) Pat and Chris would each spend half of their time each task.
D) both Pat and Chris would plant bulbs because they both have an absolute advantage in that task.

80) Refer to the accompanying figure. If Pat and Chris each spend half their time on each task, then:




A) the outcome will be efficient.
B) they will plant more bulbs and remove fewer bags of trash than if they had each specialized in the task at which they have a comparative advantage.
C) they will plant fewer bulbs and remove fewer bags of trash than if they each had specialized in the task at which they have a comparative advantage.
D) the outcome will be unattainable.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81) On a graph of a production possibilities curve, if a point is attainable, then it:
A) must be efficient.
B) might or might not be efficient.
C) is efficient only if it does not exhaust all currently available resources.
D) must completely exhaust all currently available resources.

82) Any combination of goods that can be produced with currently available resources is an:
A) attainable point.
B) efficient point.
C) inefficient point.
D) attainable and efficient point.

83) On a graph of a production possibilities curve, an inefficient point is:
A) necessarily an attainable point.
B) not necessarily an attainable point.
C) necessarily an unattainable point.
D) possibly an unattainable point.

84) Consider a graph of a production possibilities curve. If a producer is operating at an inefficient point, then that producer:
A) cannot produce more of one good without giving up some of the other good.
B) can produce more of one good without producing less of the other good.
C) must be at an unattainable point on the production possibilities curve.
D) must be specializing in activities for which it has a comparative advantage.

85) Points that lie below the production possibilities curve are inefficient because:
A) more of one good could be produced without producing less of the other.
B) producing more of one good means producing less of the other.
C) producers face scarcity.
D) too many goods are being produced.


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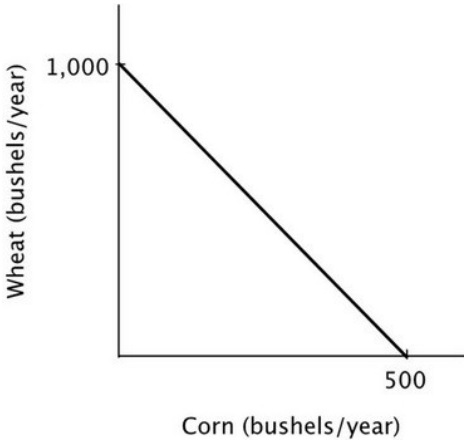
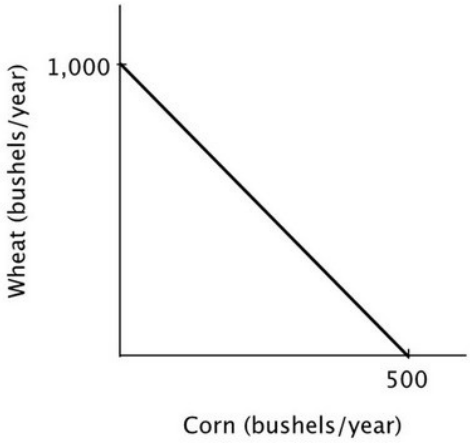
86) Refer to the accompanying figure. Growing 1,000 bushels of wheat and no bushels of corn each year is:




A) inefficient and unattainable.
B) inefficient but attainable.
C) efficient but unattainable.
D) efficient and attainable.

87) Refer to the accompanying figure. It is efficient for this farmer to:




A) grow 500 bushels of wheat and 500 bushels of corn.
B) grow 250 bushels of wheat and 500 bushels of corn.
C) grow 500 bushels of wheat and 250 bushels of corn.
D) grow 1,000 bushels of wheat and 500 bushels of corn.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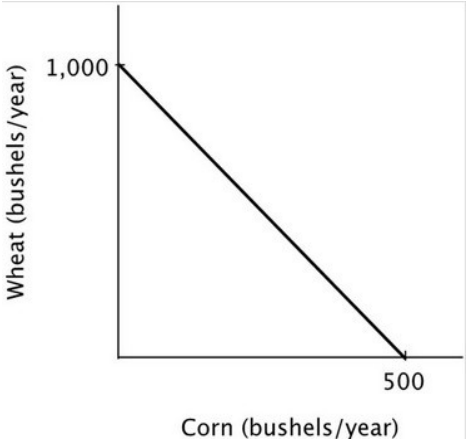
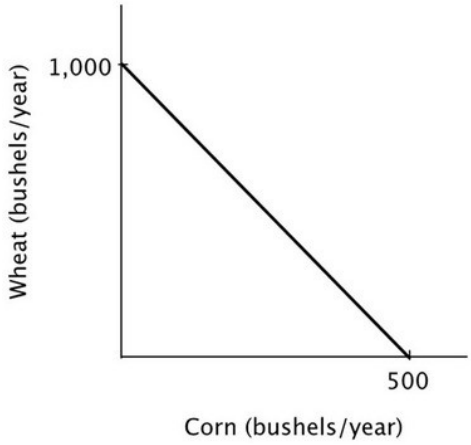
88) Refer to the accompanying figure. The opportunity cost of producing one bushel of corn is:




A) 2 bushels of wheat.
B) ½ of a bushel of wheat.
C) 500 bushels of wheat.
D) 250 bushels of wheat.

89) Refer to the accompanying figure. The opportunity cost of producing one bushel of wheat is:




A) 2 bushels of corn.
B) ½ of a bushel of corn.
C) 1,000 bushels of corn.
D) 500 bushels of corn.

90) If a given production combination is known to be attainable, then it:
A) must be on the production possibilities curve.
B) must be an inefficient point.
C) must be an efficient point.
D) could be either an inefficient or efficient point.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91) If a given production combination is efficient, then it must be:
A) above the production possibilities curve.
B) on the production possibilities curve.
C) either an attainable or unattainable point.
D) below the production possibilities curve.

92) Working efficiently, Jordan can write 3 essays and outline 4 chapters each week. It must be true that:
A) 6 essays and 0 chapter outlines would be unattainable.
B) 2 essays and 3 chapter outlines would be efficient.
C) 3 essays and 5 chapter outlines would be unattainable.
D) 4 essays and 3 chapter outlines would be both attainable and efficient.

93) Assume point *A* on a linear production possibilities curve represents the combination of 12 coffees and 3 cappuccinos, and point *B* represents 3 coffees and 6 cappuccinos. Suppose coffees are on the vertical axis and cappuccinos are on the horizontal axis. The absolute value of the slope of the production possibilities curve between points *A* and *B* equals:
A) 6.
B) 4.
C) 3.
D) 1/3.

94) Assume point *A* on a linear production possibilities curve represents the combination of 12 coffees and 3 cappuccinos, and point *B* represents 3 coffees and 6 cappuccinos. Suppose coffees are on the vertical axis and cappuccinos are on the horizontal axis. The opportunity cost of a cup of coffee is:
A) 3 cappuccinos.
B) 9 cappuccinos.
C) 1/3 of a cappuccino.
D) 6 cappuccinos.

95) Generally, on a linear two-good production possibilities curve, the opportunity cost of the good measured on the vertical axis is:
A) one minus the opportunity cost of the good measured on the horizontal axis.
B) the reciprocal of the opportunity cost of the good measured on the horizontal axis.
C) the absolute value of the slope of the production possibilities curve.
D) the negative of the opportunity cost of the good measured on the horizontal axis.

96) If a linear, two-good production possibilities curve has a slope of –2, then:
A) having an additional unit of the good measured on the vertical axis means giving up 2 units of the good measured on the horizontal axis.
B) having an additional unit of the good measured on the vertical axis means giving up ½ of a unit of the good measured on the horizontal axis.
C) you have an absolute advantage in the good measured on the vertical axis.
D) you have a comparative advantage in the good measured on the vertical axis.


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97) The idea that tradeoffs have to be made when resources are scarce is reflected in the fact that:
A) points below the production possibilities curve are efficient.
B) points below the production possibilities curve are inefficient.
C) the production possibilities curve has a negative slope.
D) the slope of a linear production possibilities is constant.

98) In a two-person, two-good economy, the gains to specialization will be larger when:
A) one person has an absolute advantage in both goods.
B) neither person has an absolute advantage.
C) there are small differences between the individuals in their opportunity costs of producing the two goods.
D) there are large differences between the individuals in their opportunity costs of producing the two goods.

99) According to the Principle of Increasing Opportunity Cost, in expanding the production of any good, we should start by utilizing the resources that:
A) we have the most of.
B) we have the least of.
C) have the highest opportunity cost.
D) have the lowest opportunity cost.

100) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

The opportunity cost of making a calculator for Smith is _____ and for Jones it is _____.
A) 0.10 computers; 0.05 computers
B) 10 computers; 20 computers
C) 1 computer; 0.5 computers
D) 0.6 computers; 1.2 computers


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101) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones devote all of their resources to producing computers, then the maximum number of computers they can produce in an hour is:
A) 120.
B) 6.
C) 16.
D) 10.

102) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 16 computers and 0 calculators per hour. If they wish to produce 14 computers and 40 calculators per hour efficiently, then Smith should spend _____, and Jones should spend _____.
A) 1 hour making computers; 40 minutes making computers and 20 minutes making calculators
B) 1 hour making computers; 20 minutes making computers and 40 minutes making calculators
C) 30 minutes making each; 30 minutes making each
D) 45 minutes making computers and 15 making calculators; 1 hour making calculators


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103) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 0 computers and 220 calculators per hour. If they wish to produce 2 computers and 200 calculators per hour efficiently, then Smith should spend _____, and Jones should spend _____.
A) 30 minutes making each; 30 minutes making each
B) 48 minutes making computers and 12 minutes making calculators; 1 hour making calculators
C) 1 hour making calculators; 10 minutes making computers and 50 minutes making calculators
D) 12 minutes making computers and 48 minutes making calculators; 1 hour making calculators

104) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones are dividing their time efficiently and producing more than 10 computers and fewer than 120 calculators per hour, then Smith will _____ and Jones will _____.
A) produce only computers; produce only calculators
B) produce only computers; split his time between computers and calculators
C) split his time between computers and calculators; produce only computers
D) produce only calculators; produce only computers


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105) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones are dividing their time efficiently and producing fewer than 10 computers and more than 120 calculators per hour, then Smith will _____ and Jones will _____.
A) split his time between computers and calculators; produce only calculators
B) produce only calculators; split his time between computers and calculators
C) produce only calculators; produce only computers
D) produce only computers; produce only calculators

106) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 100 calculators per hour; as Smith and Jones choose to efficiently produce fewer computers and more calculators, _____ should devote more time to calculators because his _____.
A) Smith; absolute advantage is larger
B) Jones; absolute advantage is smaller
C) Jones; opportunity costs are lower
D) Smith; opportunity costs are lower


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107) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Mother Lode to another mine is:
A) 2 tons per day.
B) 3 tons per day.
C) 4 tons per day.
D) 1 ton per day.

108) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Scraping Bottom to another mine is:
A) 0 tons per day.
B) 3 tons per day.
C) 4 tons per day.
D) 5 tons per day.


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109) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Middle Drift to another mine is:
A) 1 ton per day.
B) 3 tons per day.
C) 4 tons per day.
D) 5 tons per day.

110) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

Suppose Earth Movers & Shakers needs to fill an order for 60 tons of ore in a single day. If it has no other orders for that day, it should:
A) take it all from Mother Lode.
B) take it all from Middle Drift.
C) take 30 tons from Scraping Bottom and 30 tons from Middle Drift.
D) take 20 tons from each of the three mines.


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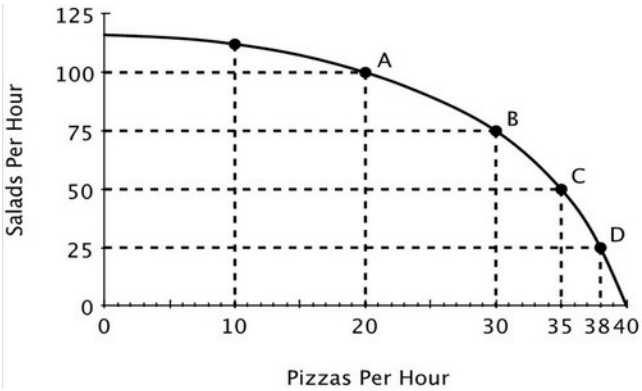
111) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

Suppose Earth Movers & Shakers needs to fill an order for 100 tons of ore in a single day. If it has no other orders to fill that day, and it's not possible to transfer miners from one mine to another, it should:
A) take it all from Mother Lode.
B) take 75 tons from Middle Drift and 25 tons from Mother Lode.
C) take 75 tons from Middle Drift and 25 tons from Scraping Bottom.
D) take 30 tons from Scraping Bottom and 70 tons from Mother Lode.

112) Refer to the accompanying figure. If this restaurant makes 75 salads in one hour, then what's the maximum number of pizzas it can make in that same hour?




A) 0
B) 10
C) 20
D) 30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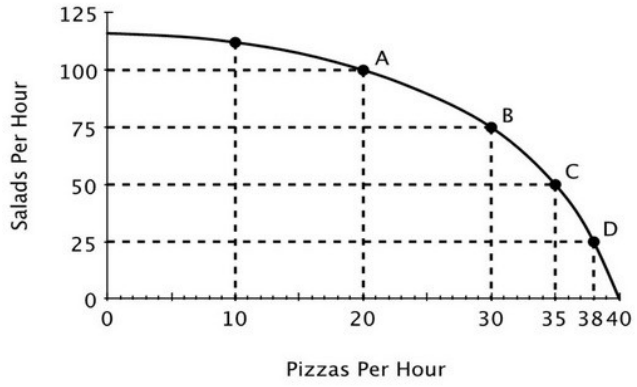
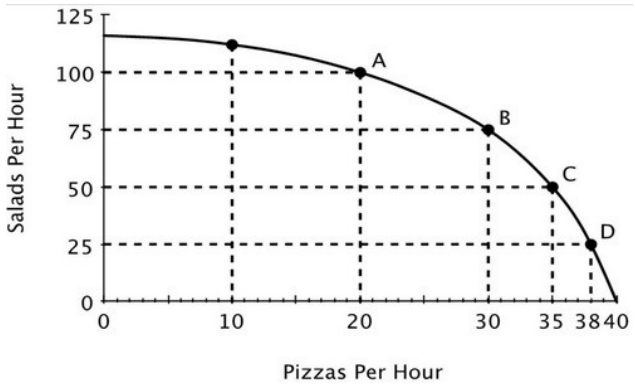
113) Refer to the accompanying figure. Relative to point *B*, at point *C* this restaurant is:




A) making more pizzas and more salads.
B) making more pizzas and fewer salads.
C) making fewer pizzas and more salads.
D) operating more efficiently.

114) Refer to the accompanying figure. Moving from point *C* to point *B*, the opportunity cost of 25 more salads is:




A) 5 pizzas.
B) 10 pizzas.
C) 15 pizzas.
D) 30 pizzas.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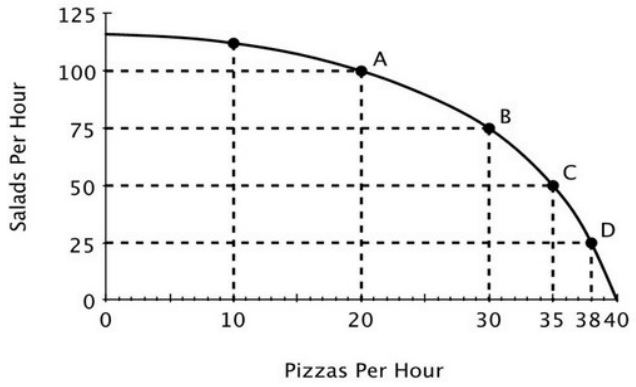
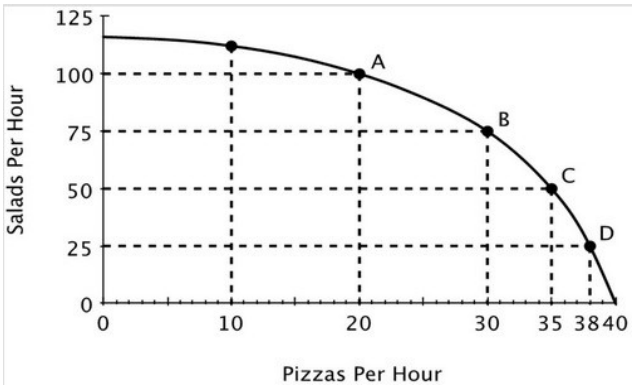
115) Refer to the accompanying figure. Moving from point *B* to point *A*, the opportunity cost of 25 more salads is:




A) 5 pizzas.
B) 10 pizzas.
C) 15 pizzas.
D) 20 pizzas.

116) Refer to the accompanying figure. The opportunity cost of making an additional salad:




A) remains constant regardless of how many salads are made.
B) increases as the number of salads increases.
C) decreases as the number of pizzas decreases.
D) decreases as the number of salads increases.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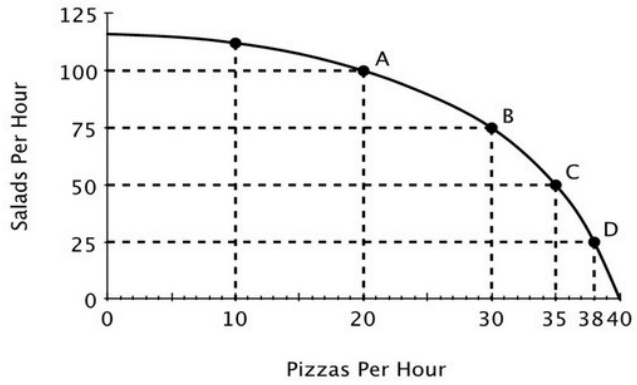
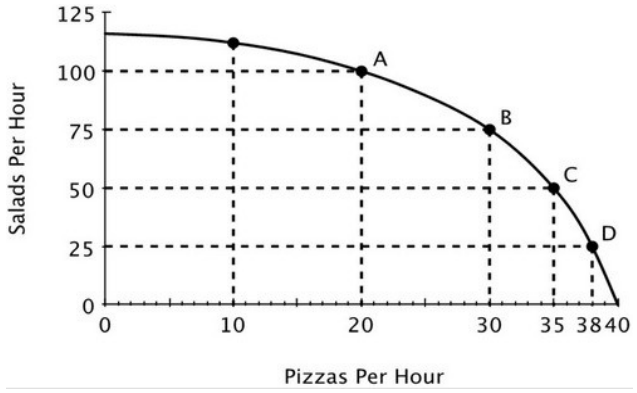
117) Refer to the accompanying figure. If this restaurant goes from producing 20 to 25 pizzas per hour, then which of the following statements is true?




A) It has to give up exactly 25 salads.
B) It has to give up more than 12.5 salads.
C) It has to give up exactly 12.5 salads.
D) It has to give up fewer than 12.5 salads.

118) Refer to the accompanying figure. As the production of pizza increases, the opportunity cost of producing pizza:




A) doesn't change.
B) decreases.
C) increases.
D) becomes negative.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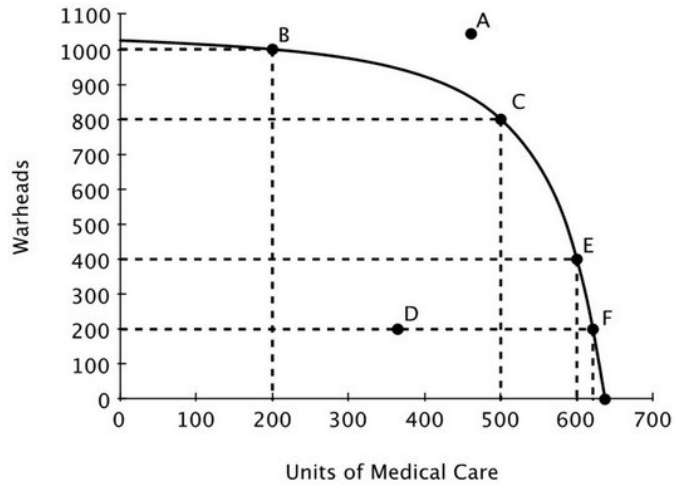
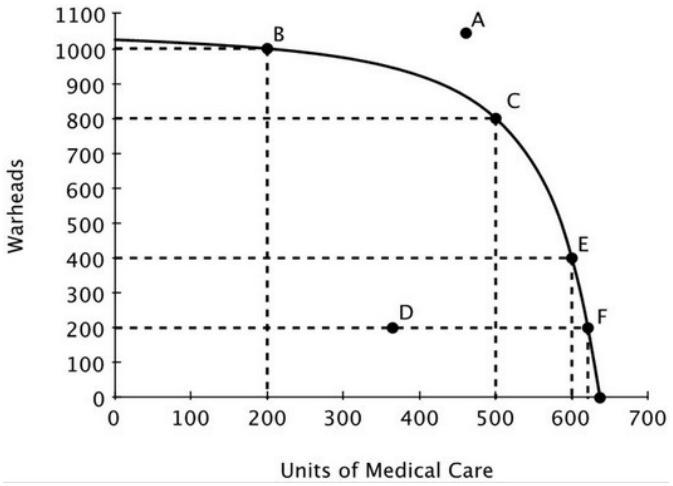
119) Refer to the accompanying figure. Which of the following is true?




A) Point *A* is efficient because it is farthest from the origin.
B) Point *D* is efficient because it requires using the fewest resources.
C) Point *F* is the most efficient because medical care is the highest there.
D) Points *B*, *C*, *E* and *F* are efficient.

120) Refer to the accompanying figure. Suppose that the government requires that resources be used efficiently. Which of the following would the government definitely not allow?




A) Specialization in warhead production.
B) Specialization in medical care production.
C) Production at any point other than *C*.
D) Production at point *D*.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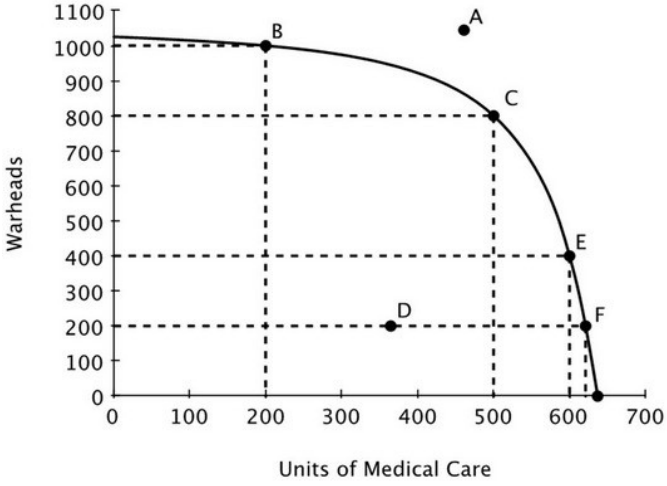
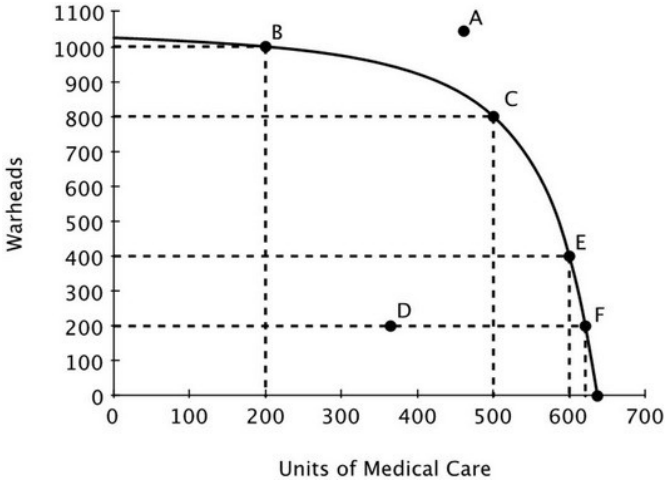
121) Refer to the accompanying figure. If this economy is currently producing at point *C*, then the opportunity cost of providing 100 additional units of medical care would be:




A) 800 warheads.
B) 400 warheads.
C) 200 warheads.
D) 100 warheads.

122) Refer to the accompanying figure. The opportunity cost of increasing medical care from 200 to 400 units is _____ the opportunity cost of increasing medical care from 400 to 600 units.




A) greater than
B) less than
C) exactly the same as
D) twice as much as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123) Production possibilities curves for large economies are generally bow-shaped because:
A) specialization gives some producers a comparative advantage.
B) opportunity costs tend to decrease with increases in production.
C) opportunity costs tend to increase with increases in production.
D) as more resources are used to produce a good, those resources become less expensive.

124) The Principle of Increasing Opportunity Costs states that:
A) productive people do the hardest tasks first.
B) when increasing production, resources with the lowest opportunity costs should be used first.
C) when increasing production, resources with the lowest opportunity costs should be used last.
D) opportunity costs increase when too little is produced.

125) You have noticed that your next-door neighbor, Mary, always works in the garden, and her husband, Joe, always walks the dog. You conclude that if Joe and Mary are efficient, then it must be the case that:
A) Mary has an absolute advantage in gardening.
B) Joe has a comparative advantage in walking the dog.
C) Mary's opportunity cost of walking the dog is lower than Joe's.
D) Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.

126) The benefits of specialization can be used to explain why:
A) workers prefer to work on a variety of tasks during the day.
B) machines are more productive than human workers.
C) individuals and nations benefit from trade.
D) big companies take advantage of smaller ones.


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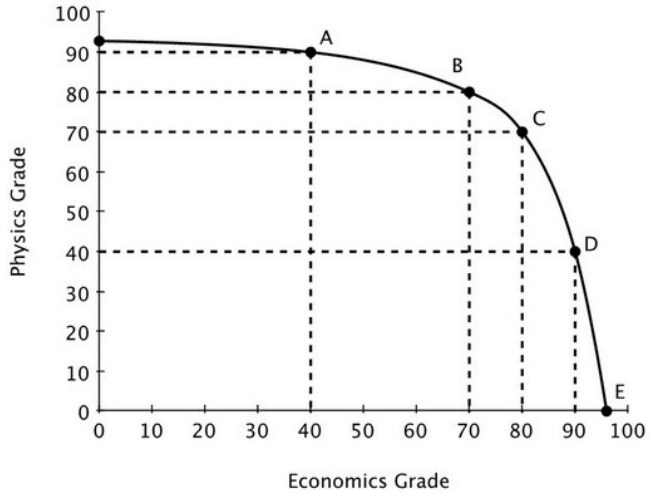
127) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Both of Moe's professors require at least a 65 to pass and a 90 to earn an A. Which of the following is true?
A) Moe can pass both classes.
B) Moe can pass economics, but only if he fails physics.
C) Moe can pass physics, but only if he fails economics.
D) Moe could earn an A in economics and still pass physics.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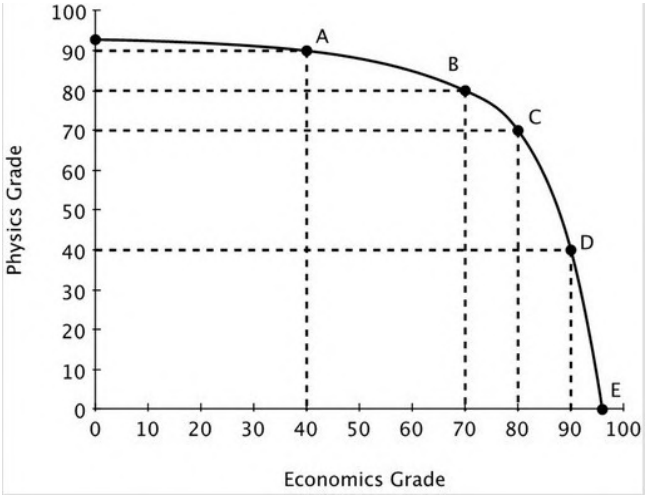
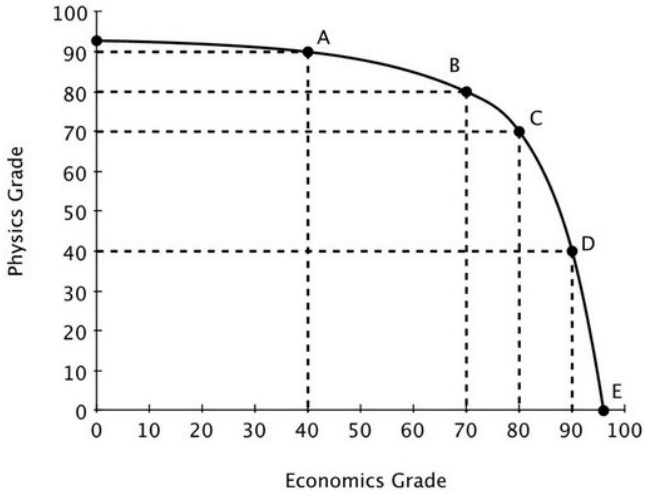
128) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Which of the following is true?
A) Moe has a comparative advantage in physics.
B) Moe's opportunity cost of studying for each subject is increasing.
C) Moe has a comparative advantage in economics.
D) Moe has an absolute advantage in economics.

129) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




According to Moe's PPC, moving from a 70 to an 80 in economics:
A) is inefficient.
B) has a lower opportunity cost than moving from an 80 to a 90.
C) is unattainable.
D) has a higher opportunity cost than moving from an 80 to a 90.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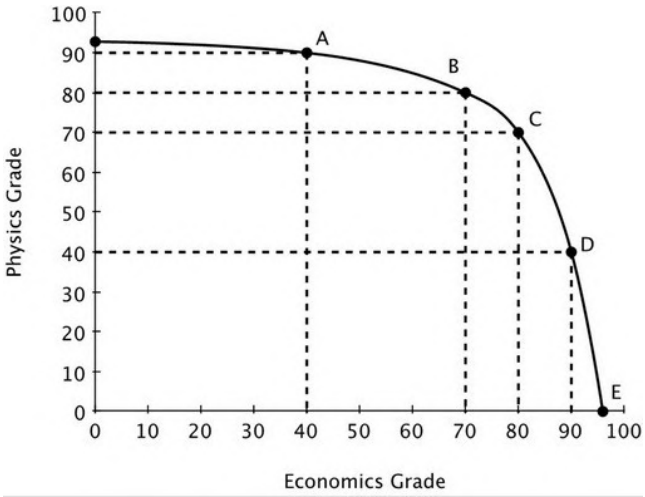
130) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




If Moe moves from Point *A* to point *C*, his grade in Physics will go down by _____ his grade in economics.

A) less than the increase in
B) more than the increase in
C) more than the decrease in
D) less than the decrease in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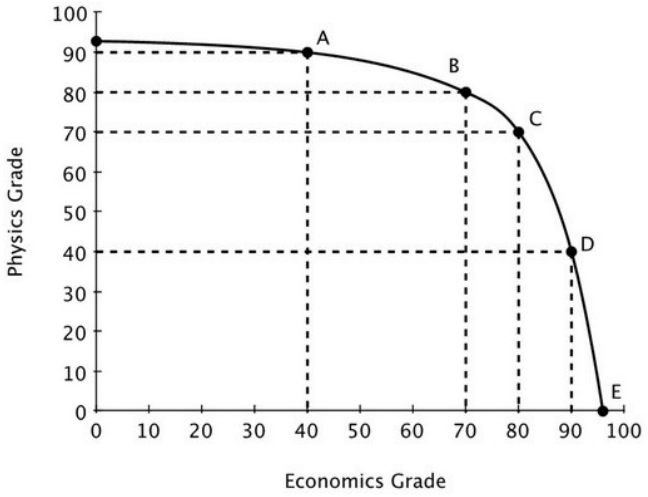
131) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




The Principle of Increasing Opportunity Cost is reflected in the fact that the opportunity cost going from 70 to 80 in economics is:
A) lower than the opportunity cost of going from 80 to 90 in economics.
B) higher than the opportunity cost of going from 80 to 90 in economics.
C) lower than the opportunity cost of going from 80 to 90 in physics.
D) the same as the opportunity cost of going from 70 to 80 in physics.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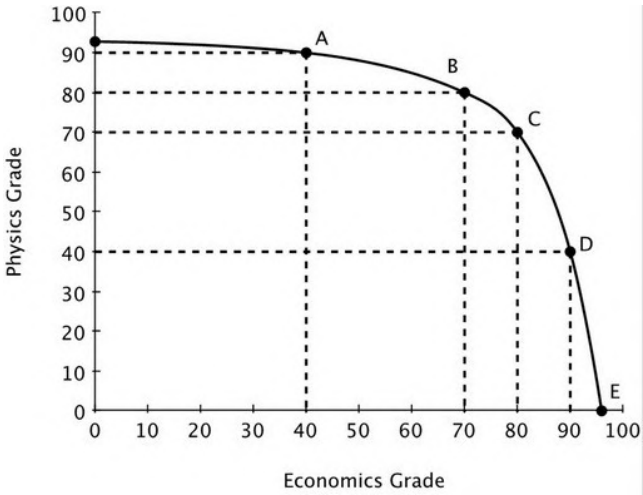
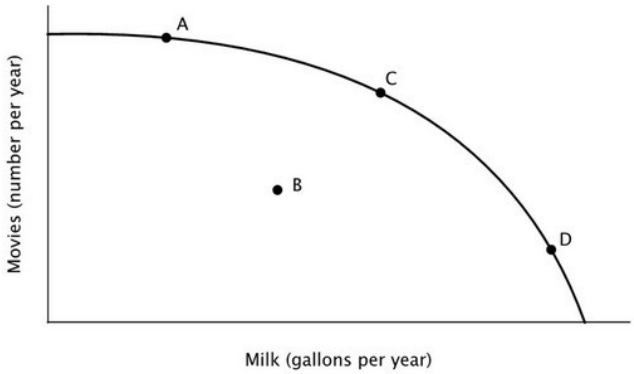
132) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Moe needs to earn at least an 80 in both economics and physics to keep his scholarship. Given his current PPC, an 80 in both classes is _____.
A) unattainable
B) attainable
C) efficient
D) inefficient

133) Refer to the accompanying figure. For the nation whose PPC is shown, it must be true that:




A) the nation's productive resources are better-suited to making milk than to making movies.
B) the nation's productive resources are better-suited to making movies than to making milk.
C) some of the nation's productive resources are better-suited to making milk, and some are better-suited to making movies.
D) the nation has a comparative advantage in making milk.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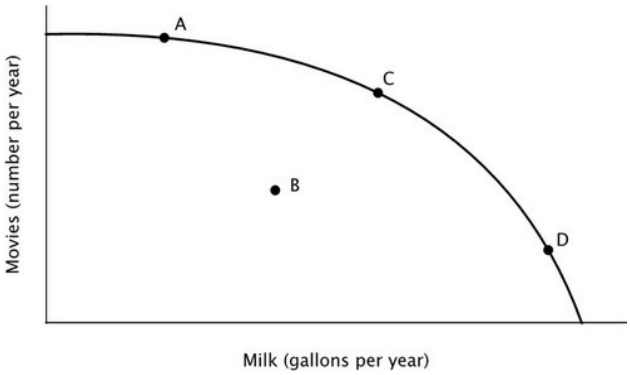
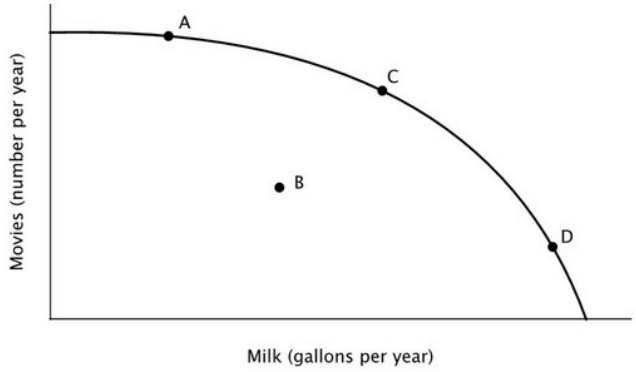
134) Refer to the accompanying figure. At point *D*, the opportunity cost of making milk is:




A) low because the economy is specializing in making milk.
B) high because productive resources that are better-suited to making movies *are not* being used to make milk.
C) high because productive resources that are better-suited to making movies *are* being used to make milk.
D) high because the economy is not operating efficiently.

135) Refer to the accompanying figure. This economy would be operating at point *B* if:




A) it was operating efficiently.
B) the opportunity cost of making milk were higher than the opportunity cost of making movies.
C) the opportunity cost of making movies were higher than the opportunity cost of making milk.
D) resources that are better-suited to making movies were being used to make milk, while resources that are better-suited to making milk were being used to make movies.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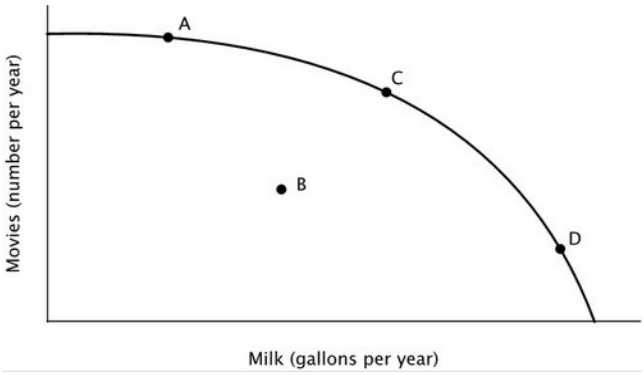
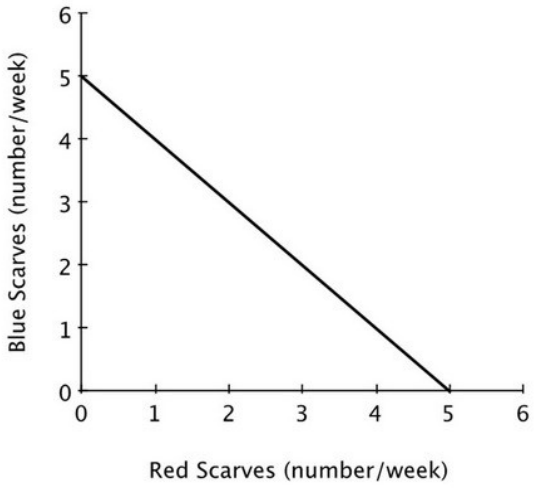
136) Refer to the accompanying figure. If this economy were currently operating at point *D*, then in order to make more movies:




A) the first productive resources to switch to making movies should be those with the lowest opportunity cost of making milk.
B) the first productive resources to switch to making movies should be those with the highest opportunity cost of making milk.
C) no productive resources would need to switch from making milk to movies because point D is already efficient.
D) no productive resources would need to switch from making milk to movies because each resource should continue to be used according to its comparative advantage.

137) The accompanying figure shows Avery's weekly production possibilities curve for scarves.




For Avery, the opportunity cost of making a red scarf is:
A) decreasing.
B) increasing.
C) 1 blue scarf.
D) zero.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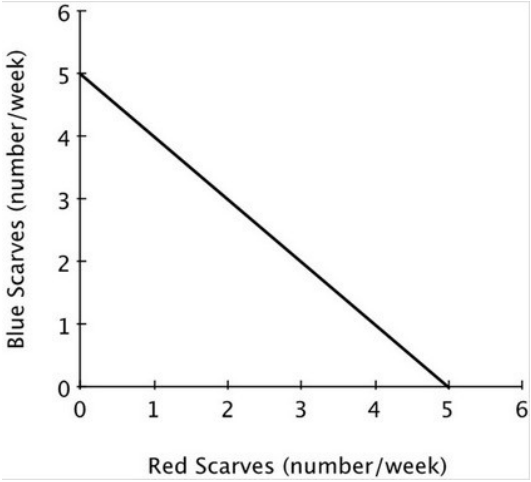
138) The accompanying figure shows Avery's weekly production possibilities curve for scarves.




Avery's PPC would shift outward if she:
A) knits more red scarves and fewer blue scarves each week.
B) devotes less time to knitting each week.
C) devotes more time to knitting each week.
D) knits fewer red scarves and more blue scarves each week.

139) Economic growth can result from a(n):
A) increase in the amount of productive resources.
B) increase in number of the minimum wage jobs.
C) increase in the amount of consumer goods produced.
D) decrease in the number of workers available.

140) Which of the following is NOT a reason why there are gains to specialization?
A) It eliminates many of the costs of switching from one task to another.
B) It further improves skills through experience and practice.
C) It increases the amount productive resources in the economy.
D) It allows individuals to concentrate on the activities in which they have a comparative advantage.

141) An increase in an economy's productive resources will lead the production possibilities curve to:
A) shift inward.
B) shift outward.
C) become flatter.
D) stay the same.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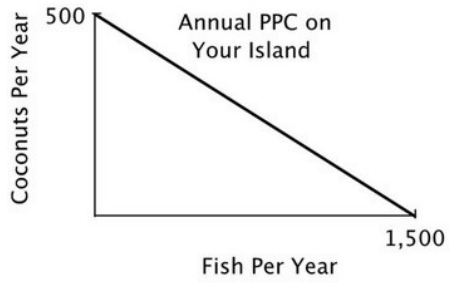
142) Suppose that Nepal invests less in new factories and equipment than does the United States. This will likely cause:
A) Nepal's production possibilities curve to shift outward faster than the U.S.'s.
B) The U.S.'s production possibilities curve to shift inward faster than Nepal's.
C) The U.S.'s production possibilities curve to shift outward faster than Nepal's.
D) Nepal's production possibilities curve to shift inward faster than the U.S.'s.

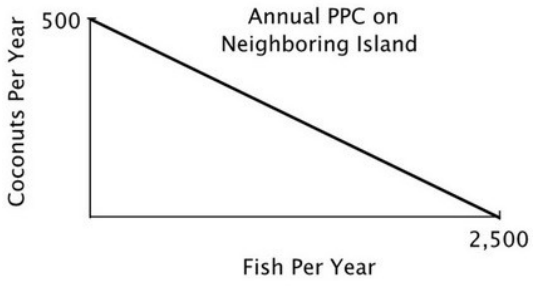
143) If a nation restricts imports, it will:
A) benefit each individual citizen in that nation.
B) increase the total value of goods and services produced in that nation.
C) decrease the total value of goods and services produced in that nation.
D) harm each individual citizen in that nation.

144) Regarding specialization, it is generally true that:
A) more specialization is always better.
B) less specialization is always better.
C) specialization imposes costs as well as benefits.
D) more specialization is always worse.

145) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




As soon as you see the other island's PPC, you realize there are:
A) no gains from trade because you both have the same comparative advantage.
B) no gains from trade because there is no difference in your ability to harvest coconuts.
C) no gains from trade because the other island has an absolute advantage.
D) gains from trade because your island has a comparative advantage in coconuts.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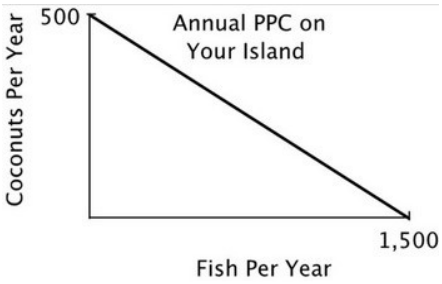
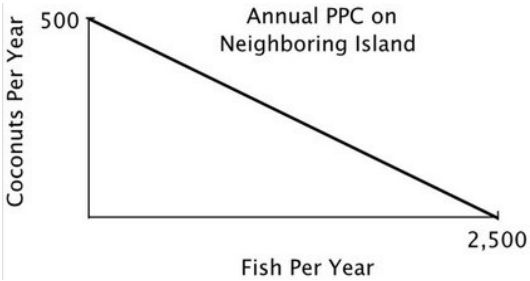
146) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




If the other island's delegate offers to give you 2 fish for every 1 coconut you give them, you will:
A) accept their offer because you do not have the comparative advantage in fish.
B) refuse their offer because the opportunity cost to you of a coconut is more than 2 fish.
C) accept their offer because you do not have an absolute advantage in fish.
D) refuse their offer because the opportunity cost to you of a coconut is less than 2 fish.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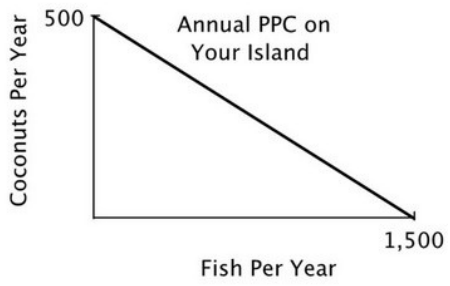
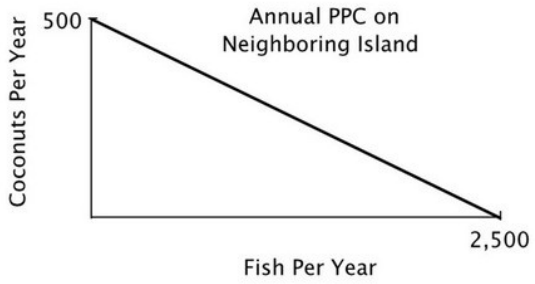
147) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




What's the minimum number of fish you would be willing to accept in exchange for a coconut?
A) 5
B) 4
C) 3
D) 2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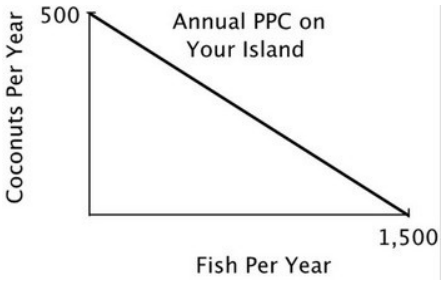
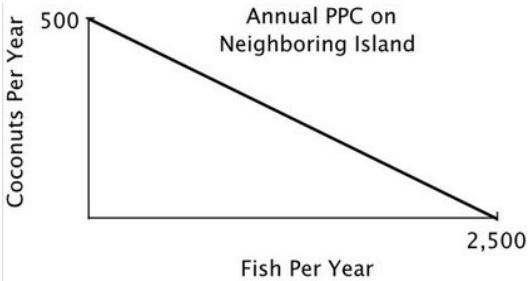
148) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




If you offer to give the other island 1 coconut for every 4 fish they give you, then they will:
A) refuse your offer because they have a comparative advantage in fish.
B) accept your offer because your opportunity cost of a coconuts is less than 4 fish.
C) refuse your offer because they can produce as many coconuts as you can.
D) accept your offer because their opportunity cost of a coconut is greater than 4 fish.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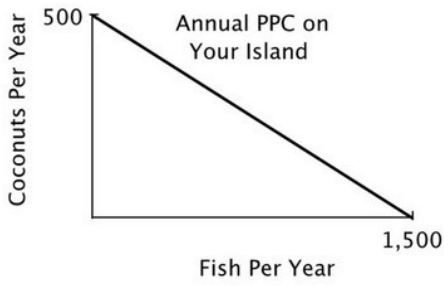
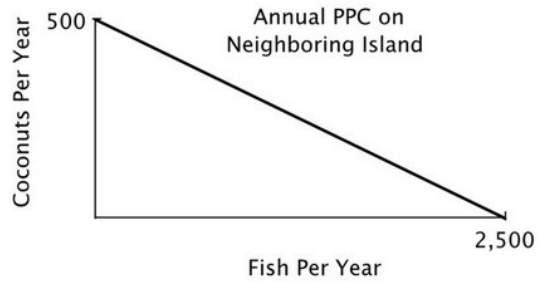
149) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to give 350 coconuts to the other island in exchange for 1,300 fish. After the trade, your island has a total of _____ coconuts and _____ fish.
A) 150; 2,800
B) 500; 1,300
C) 150; 1,300
D) 500; 1,500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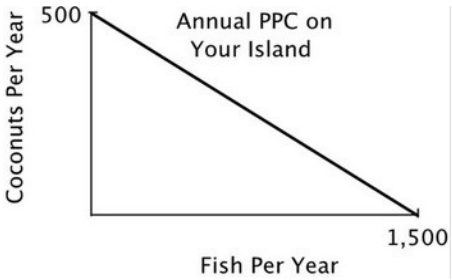
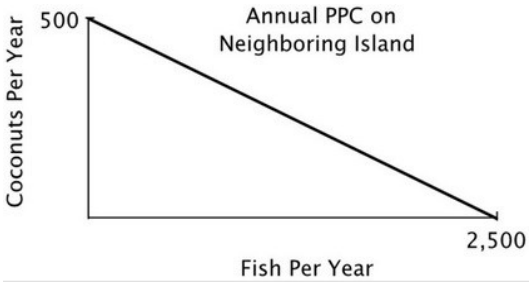
150) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to give 350 coconuts to the other island in exchange for 1,300 fish. After the trade the other island has a total of _____ coconuts and _____ fish.
A) 850; 1,200
B) 500; 1,200
C) 350; 1,500
D) 350; 1,200

151) If country A can produce more of practically everything than can country B, then which of the following statements is true?
A) Country A has no incentive to trade with country B.
B) Country B cannot have a comparative advantage in the production of any good that country A wants to buy.
C) Trade can benefit both countries.
D) Country B has no incentive to trade with country A.

152) As the differences in opportunity costs between the U.S. and its trading partners increase, the potential gains from specialization and trade _____.
A) increase
B) decrease
C) stay the same
D) become unpredictable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153) One reason there is political opposition to international trade is that:
A) the potential gains from specialization and trade are small.
B) trade does not increase the total value of goods and services produced by a nation.
C) the differences in opportunity costs between countries are small.
D) not everyone benefits from trade.

154) One concern regarding the North American Free Trade Agreement (NAFTA) was that it would lead:
A) the total value of goods and services produced by the United States to fall.
B) wages in Mexico to rise.
C) highly skilled workers in the United States to lose their jobs.
D) unskilled workers in the United States to lose their jobs.

155) When a nation reduces the barriers to international trade:
A) each individual citizen becomes better off.
B) each individual citizen becomes worse off.
C) the total value of all goods and services produced by the nation falls.
D) the total value of all goods and serviced produced by the nation rises.

156) The benefits to specialization are even greater when two trading partners have:
A) absolute advantages in producing the same goods.
B) similar consumption preferences.
C) very similar opportunity costs.
D) large differences in opportunity costs.

157) According to the textbook, the evidence indicates that NAFTA has:
A) reduced the wages of skilled workers in the United States.
B) reduced the employment of unskilled workers in the United States significantly.
C) stopped illegal immigration from Mexico.
D) not significantly reduced the employment of unskilled workers in the United States.

158) According to the textbook, NAFTA was expected to help which country exploit its comparative advantage in the production of goods made by unskilled labor?
A) Canada
B) Cuba
C) Mexico
D) The USA

159) Outsourcing is a term increasingly used to refer to the act of:
A) hiring illegal immigrants.
B) importing raw materials into the United States from other countries.
C) exporting final goods to other countries.
D) replacing relatively expensive American workers with low-wage workers overseas.


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160) The fundamental reason firms outsource is that:
A) low-wage workers in other countries are more productive than are U.S. workers.
B) hiring low-wage workers overseas reduces firms' costs.
C) outsourcing increases employment overseas.
D) U.S. workers cannot perform the tasks performed by workers in other countries.

161) When a U.S. firm engages in outsourcing, it benefits _____ and harms _____.
A) the firm; the U.S. consumers of the firm's products
B) the U.S. consumers of the firm's products; the firm
C) the U.S. consumers of the firm's products; the firm's U.S. employees
D) the U.S. consumers of the firm's products; the firm's foreign employees

162) All else equal, the jobs that are the least likely to be outsourced are those that:
A) do not involve face-to-face contact.
B) can be done by a computer.
C) require face-to-face communication.
D) can be broken down into series of well-defined steps.

163) Which of the following jobs is least likely to be outsourced?
A) Flipping hamburgers
B) Technical assistance over the phone for your computer
C) Transcription of physicians' records
D) Software design


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*Principles of Macroeconomics, 7e* **(Frank)**
**Chapter 2 Comparative Advantage**

1) An individual has an absolute advantage in producing pizzas if that individual:
A) has a lower opportunity cost of producing pizzas than anyone else.
B) can produce more pizzas in a given amount of time than anyone else.
C) has a higher opportunity cost of producing pizzas than anyone else.
D) charges the lowest price for pizzas.

Answer: B
Explanation: Absolute advantage means being able to produce more in a given time period.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

2) If Al has an absolute advantage over Beth in preparing meals, then:
A) it takes Al more time to prepare a meal than Beth.
B) the problem of scarcity applies to Beth but not to Al.
C) Al's opportunity cost of preparing a meal is lower than is Beth's.
D) Al can prepare more meals in a given time period than Beth.

Answer: D
Explanation: Absolute advantage means being able to produce more in a given time period.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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3) If Les can produce two pairs of pants per hour while Eva can produce one pair per hour, then it must be true that:
A) Les has a comparative advantage in producing pants.
B) Les has an absolute advantage in producing pants.
C) Eva has a comparative advantage in producing pants.
D) Les has both comparative and absolute advantage in producing pants.

Answer: B
Explanation: Absolute advantage means being able to produce more in a given time period.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

4) If a nation can produce a more computers per year than any other nation, that nation has a(n) _____ advantage in the production of computers.
A) comparative
B) absolute
C) relative
D) natural

Answer: B
Explanation: Absolute advantage means being able to produce more in a given time period.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
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5) If you have a comparative advantage in a particular task, then:
A) you complete it faster than other people.
B) you give up more to accomplish that task than do others.
C) you give up less to accomplish that task than do others.
D) you have specialized in that task, while others have not.

Answer: C
Explanation: Comparative advantage means having a lower opportunity cost.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

6) Larry has a comparative advantage over his classmates in writing term papers if he:
A) can write term papers faster than his classmates.
B) has an absolute advantage in writing term papers.
C) always earns an A on his term papers.
D) has a lower opportunity cost of writing term papers than his classmates.

Answer: D
Explanation: Comparative advantage means having a lower opportunity cost.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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7) If a nation has the lowest opportunity cost of producing a good, that nation has a(n) _____ in the production of that good.
A) comparative advantage
B) absolute advantage
C) comparative advantage and an absolute advantage
D) absolute advantage and possibly a comparative advantage

Answer: A
Explanation: Comparative advantage means having a lower opportunity cost. Absolute advantage means being able to produce more in a given time period.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

8) Which of the following statements is true?
A) Absolute advantage implies comparative advantage.
B) Comparative advantage does not require absolute advantage.
C) Absolute advantage requires comparative advantage.
D) Comparative advantage requires absolute advantage.

Answer: B
Explanation: Comparative advantage and absolute advantage differ: you can have both at the same time, but you can also have one but not the other.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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9) If Jane can produce 3 pairs of shoes per hour, while Bob can produce 2, then _____ has a(n) _____ advantage in producing shoes.
A) Jane; absolute
B) Jane; comparative
C) Bob; absolute
D) Bob; comparative

Answer: A
Explanation: Absolute advantage means being able to produce more in a given time period.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

10) According to the accompanying table, Martha has the absolute advantage in making:

| | **Time to Make a Pie** | **Time to Make a Cake** |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies.
B) neither pies nor cakes.
C) cakes.
D) both pies and cakes.

Answer: B
Explanation: It takes Martha longer to make both pies and cakes than Julia.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
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11) According to the accompanying table, Julia has the absolute advantage in making:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies.
B) neither pies nor cakes.
C) cakes.
D) both pies and cakes.

Answer: D
Explanation: It takes Julia less time to make both pies and cakes than Martha.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

12) Refer to the accompanying table. Martha's opportunity cost of making of a pie is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 3/4 of a cake.
B) 4/3 of a cake.
C) 8 cakes.
D) 80 cakes.

Answer: A
Explanation: In the time it takes Martha to make a pie, she could have made 3/4 (= 60/80) of a cake.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
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13) Refer to the accompanying table. Martha's opportunity cost of making a cake is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 3/4 of a pie.
B) 4/3 of a pie.
C) 6 pies.
D) 60 pies.

Answer: B
Explanation: In the time it takes Martha to make a cake, she could have made 4/3 (= 80/60) of a pie.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
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14) Refer to the accompanying table. Julia's opportunity cost of making a pie is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 60 cakes.
B) 6 cakes.
C) 6/5 of a cake.
D) 5/6 of a cake.

Answer: D
Explanation: In the time it takes Julia to make a pie, she could have made 5/6 (= 50/60) of a cake.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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15) Refer to the accompanying table. Julia's opportunity cost of making a cake is:

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) 60 cakes.
B) 6 cakes.
C) 6/5 of a cake.
D) 5/6 of a cake.

Answer: C
Explanation: In the time it takes Julia to make a cake, she could have made 6/5 (= 60/50) of a pie.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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16) Refer to the accompanying table. _____ has the comparative advantage in making pies and _____ the comparative advantage in making cakes.

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) Martha; Martha
B) Julia; Julia
C) Martha; Julia
D) Julia; Martha

Answer: C
Explanation: Martha's opportunity cost of making a pie (3/4 of a cake) is less than Julia's (5/6 of a cake), and Julia's opportunity cost of making a cake (6/5 of a pie) is less than Martha's (4/3 of a pie).
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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17) Refer to the accompanying table. Based on their comparative advantage, Martha should specialize in making _____ while Julia should specialize in making _____.

| | Time to Make a Pie | Time to Make a Cake |
|---|---|---|
| Martha | 60 minutes | 80 minutes |
| Julia | 50 minutes | 60 minutes |

A) pies; cakes
B) cakes; pies
C) neither pies nor cakes; both pies and cakes
D) both pies and cakes; neither pies nor cakes

Answer: A
Explanation: Individuals should specialize in the task in which they have comparative advantage. Martha has the comparative advantage in pies, and Julia has the comparative advantage in cakes. To see this note that Martha's opportunity cost of making a pie (3/4 of a cake) is less than Julia's (5/6 of a cake), and Julia's opportunity cost of making a cake (6/5 of a pie) is less than Martha's (4/3 of a pie).
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Evaluate
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

18) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. What is the opportunity cost to Dan of making a sandwich?
A) 1/3 of a smoothie
B) 3 smoothies
C) 15 smoothies
D) 5 smoothies

Answer: A
Explanation: In the time it takes Dan to make a sandwich, he could make 1/3 of a smoothie.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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19) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. Which of the following statements is correct?
A) Dan has the comparative advantage in smoothies, but Tracy has the absolute advantage in smoothies.
B) Dan has the comparative and absolute advantage in sandwiches.
C) Dan has the comparative and absolute advantage in smoothies.
D) Dan has the comparative advantage in sandwiches, but Tracy has the absolute advantage in sandwiches.

Answer: B
Explanation: For Dan, in the time it takes him to make a sandwich, he could make 1/3 of a smoothie, and in the time it takes him to make a smoothie, he could make 3 sandwiches. For Tracy, in the time it takes her to make a sandwich, she could make 1/2 of a smoothie, and in the time it takes her to make a smoothie she could make 2 sandwiches. So, Dan has the comparative advantage in sandwiches (because 1/3 < 1/2) and Tracy has the comparative advantage in smoothies (because 2 < 3). Also, because Dan can make a sandwich more quickly than Tracy, he has the absolute advantage in sandwiches, and because Tracy can make a smoothie more quickly than Dan, she has the absolute advantage in smoothies.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
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20) Suppose it takes Dan 5 minutes to make a sandwich and 15 minutes to make a smoothie, and it takes Tracy 6 minutes to make a sandwich and 12 minutes to make a smoothie. Which of the following statements is correct?
A) Tracy should specialize in sandwiches and smoothies.
B) Dan should specialize in smoothies, and Tracy should specialize in sandwiches.
C) Dan should specialize in sandwiches, and Tracy should specialize in smoothies.
D) Dan should specialize in both sandwiches and smoothies.

Answer: C
Explanation: For Dan, in the time it takes him to make a sandwich, he could make 1/3 of a smoothie, and in the time it takes him to make a smoothie, he could make 3 sandwiches. For Tracy, in the time it takes her to make a sandwich, she could make 1/2 of a smoothie, and in the time it takes her to make a smoothie she could make 2 sandwiches. So Dan has the comparative advantage in sandwiches (because 1/3 < 1/2) and Tracy has the comparative advantage in smoothies (because 2 < 3).
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) Suppose it takes Paul 3 hours to bake a cake and 2 hours to mow the lawn, and suppose it takes Tom 2 hours to bake a cake and 1 hour to mow the lawn. Which of the following statements is correct?
A) Paul has the absolute advantage in baking cakes.
B) Paul has the comparative advantage in mowing the lawn.
C) Paul has the comparative advantage in baking cakes.
D) Paul has the absolute advantage in mowing the lawn.

Answer: C
Explanation: For Paul, in the time it takes him to bake a cake, he could have mowed the lawn 1.5 times, and the time it takes him to mow the lawn, he could have made 2/3 of a cake. For Tom, in the time it takes him to bake a cake, he could have mowed the lawn 2 times, and in the time it takes him to mow the lawn, he could have baked 1/2 of a cake. Thus, Paul has a comparative advantage in baking cakes (because 1.5 < 2), and Tom has a comparative advantage in mowing the lawn (because 1/2 < 2/3). Tom has an absolute advantage in both tasks since he can do each more quickly than Paul.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation


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22) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. Which of the following statements is correct?
A) Cathy has a comparative advantage in pies, and Lewis has an absolute advantage in pies.
B) Cathy has a comparative and absolute advantage in pies.
C) Lewis has a comparative and absolute advantage in pies.
D) Lewis has a comparative advantage in pies, and Cathy has an absolute advantage in pies.

Answer: D
Explanation: For Cathy, in the time it takes her to make a pie, she could make 1.5 cakes, and in the time it takes her to make a cake, she could make 2/3 of a pie. For Lewis, in the time it takes him to make a pie, he could make 1.33 (= 2/1.5) cakes, and in the time it takes him to make a cake, he could make 3/4 of a pie. Thus, Cathy has the comparative advantage in cakes (because 2/3 < 3/4), and Lewis has the comparative advantage in pies (because 1.33 < 1.5). Since Cathy can make both pies and cakes more quickly than Lewis, she has the absolute advantage over him in both.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. Which of the following statements is correct?
A) Cathy should specialize in both pies and cakes.
B) There are no gains from specialization and trade.
C) Lewis should specialize in pies, and Cathy should specialize in cakes.
D) Cathy should specialize in pies, and Lewis should specialize in cakes.

Answer: C
Explanation: For Cathy, in the time it takes her to make a pie, she could make 1.5 cakes, and in the time it takes her to make a cake, she could make 2/3 of a pie. For Lewis, in the time it takes him to make a pie, he could make 1.33 (= 2/1.5) cakes, and in the time it takes him to make a cake, he could make 3/4 of a pie. Thus, Cathy has the comparative advantage in cakes (because 2/3 < 3/4), and Lewis has the comparative advantage in pies (because 1.33 < 1.5).
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation


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24) Suppose Cathy and Lewis work in a bakery making pies and cakes. Suppose it takes Cathy 1.5 hours to make a pie and 1 hour to make a cake, and suppose it takes Lewis 2 hours to make a pie and 1.5 hours to make a cake. What is the opportunity cost to Cathy of making a cake?
A) 2/3 of a pie.
B) 1 pie.
C) 1.5 pies.
D) 1.33 pies.

Answer: A
Explanation: In the time it takes her to make a cake, Cathy could make 2/3 (= 1/1.5) of a pie.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

25) Refer to the accompanying table. According to the table, Corey has the absolute advantage in:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) making pizza.
B) neither making nor delivering pizza.
C) delivering pizza.
D) making and delivering pizza.

Answer: A
Explanation: Corey can make more pizzas in an hour than Pat.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
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26) Refer to the accompanying table. According to the table, Pat has the absolute advantage in:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) making pizza.
B) neither making nor delivering pizza.
C) delivering pizza.
D) making and delivering pizza.

Answer: C
Explanation: Pat can deliver more pizzas in an hour than Corey.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

27) Refer to the accompanying table. Corey's opportunity cost of making of a pizza is delivering:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 2 pizzas.
B) 3/2 of a pizza.
C) 2/3 of a pizza.
D) 1/2 of a pizza.

Answer: D
Explanation: Corey has to give up 6 deliveries to make 12 pizzas, so his opportunity cost of making 1 pizza is 1/2 of a delivery.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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28) Refer to the accompanying table. Corey's opportunity cost of delivering of a pizza is making:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 6 pizzas.
B) 12 pizzas.
C) 2 pizzas.
D) 1/2 of a pizza.

Answer: C
Explanation: Corey has to give up making 12 pizzas to make 6 deliveries, so his opportunity cost of 1 delivery is making 2 pizzas.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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29) Refer to the accompanying table. Pat's opportunity cost of making a pizza is delivering:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 3 pizzas.
B) 2 pizzas.
C) 3/2 of a pizza.
D) 2/3 of a pizza.

Answer: C
Explanation: Pat has to give up 15 deliveries to make 10 pizzas, so Pat's opportunity cost of making 1 pizza is 3/2 of a delivery.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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30) Refer to the accompanying table. Pat's opportunity cost of delivering a pizza is making:

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) 12 pizzas.
B) 10 pizzas.
C) 3/2 of a pizza.
D) 2/3 of a pizza.

Answer: D
Explanation: Pat has to give up making 10 pizzas to make 15 deliveries, so Pat's opportunity cost of 1 delivery is making 2/3 of a pizza.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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31) Refer to the accompanying table. _____ has the comparative advantage in making pizza, and _____ has the comparative advantage in delivering pizza.

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) Corey; Corey
B) Pat; Pat
C) Pat; Corey
D) Corey; Pat

Answer: D
Explanation: Corey gives up fewer deliveries to make a pizza, and Pat gives up making fewer pizzas to deliver a pizza. In other words, Corey's opportunity cost of making a pizza (1/2 of a delivery) is lower than Pat's (3/2 of a delivery), and Pat's opportunity cost of delivering a pizza (making 2/3 of a pizza) is lower than Corey's (making 2 pizzas).
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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32) Refer to the accompanying table. Based on their comparative advantages, Pat should specialize in _____, and Corey should specialize in _____.

| | Pizzas Made Per Hour | Pizzas Delivered Per Hour |
|---|---|---|
| Corey | 12 | 6 |
| Pat | 10 | 15 |

A) delivering pizza; making pizza
B) making pizza; delivering pizza
C) neither making pizza nor delivering pizza; both making pizza and delivering pizza
D) both making pizza and delivering pizza; neither making pizza nor delivering pizza

Answer: A
Explanation: Everyone does best when each person specializes in the activities in which they have a comparative advantage.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Evaluate
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33) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | **Rooms Cleaned Per Hour** | **Meals Cooked Per Hour** |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

Which of the following is true?
A) Lou has both an absolute advantage and a comparative advantage over Alex in both tasks.
B) Alex has a comparative advantage over Lou in cleaning.
C) Lou has a comparative advantage over Alex in cleaning.
D) Alex has both an absolute advantage and a comparative advantage over Lou in both tasks.

Answer: C
Explanation: Alex's opportunity cost of cleaning a room is one meal while Lou's opportunity cost is 4/5 of a meal.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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34) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | Rooms Cleaned Per Hour | Meals Cooked Per Hour |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

If Alex and Lou work out an efficient arrangement for these two chores, then under that arrangement:
A) Alex and Lou each would do half of the cooking and half of the cleaning.
B) Alex would do all of the cleaning, while Lou would do all the cooking.
C) Lou would do all of the cleaning and all of the cooking.
D) Lou would do all of the cleaning, while Alex would do all of the cooking.

Answer: D
Explanation: Everyone does best when each person specializes in the activities in which they have a comparative advantage. Lou's opportunity cost of cleaning a room (4/5 of a meal) is less than Alex's (1 meal). Alex's opportunity cost of making a meal (1 room) is less than Lou's (5/4 rooms).
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
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35) Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. The accompanying table shows the number of rooms they can each clean and the number of meals they can each cook in an hour.

| | Rooms Cleaned Per Hour | Meals Cooked Per Hour |
|---|---|---|
| Lou | 5 | 4 |
| Alex | 3 | 3 |

For Alex, the opportunity cost of cleaning one room is making _____ meal(s); for Lou the opportunity cost of cleaning one room is making _____ meal(s).
A) 4; 4
B) 1; 4/5
C) 1; 5/4
D) 3; 5

Answer: B
Explanation: Alex can clean 3 rooms or cook 3 meals in an hour, so his opportunity cost of cleaning a room is 1 meal. Lou can clean 5 rooms or cook 4 meals in an hour, so his opportunity cost of cleaning a room is 4/5 of a meal.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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36) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, _____ has an absolute advantage in selling cars and _____ has an absolute advantage in selling trucks.
A) Joe; Joe
B) Larry; Ralph
C) Ralph; Larry
D) Larry; Joe

Answer: B
Explanation: Larry sold the most cars, and Ralph sold the most trucks. Recall that absolute advantage means being able to do the most in a given period of time.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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37) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Larry's opportunity cost of selling a truck is selling:
A) 10 cars.
B) 1/2 of a car.
C) 1 car.
D) 2 cars.

Answer: D
Explanation: Larry has to give up selling 10 cars to sell 5 trucks, so his opportunity cost of selling 1 truck is selling 2 cars.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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38) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Joe's opportunity cost of selling a truck is selling:
A) 9 cars.
B) 1 car.
C) 4 cars.
D) 1/3 of a car.

Answer: B
Explanation: Joe has to give up selling 9 cars to sell 9 trucks, so his opportunity of selling 1 truck is selling 1 car.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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39) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Ralph's opportunity cost of selling a truck is selling:
A) 4 cars.
B) 1/3 of a car.
C) 3 cars.
D) 1/4 of a car.

Answer: D
Explanation: Ralph has to give up selling 4 cars to sell 12 trucks, so his opportunity cost of selling 1 truck is selling 1/4 of a car.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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40) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, Joe's opportunity cost of selling a car is _____ than Ralph's, and Joe's opportunity cost of selling a car is _____ than Larry's.
A) less; greater
B) greater; less
C) less; less
D) greater; greater

Answer: A
Explanation: Larry's opportunity cost of selling a car is selling 1/2 of truck, Joe's opportunity cost of selling a car is selling 1 truck, and Ralph's opportunity cost of selling a car is selling 4 trucks.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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41) Dent 'n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

| | Cars Sold | Trucks Sold |
|---|---|---|
| Larry | 10 | 5 |
| Joe | 9 | 9 |
| Ralph | 3 | 12 |

Based on last month's data, _____ should specialize in truck sales, and _____ should specialize in car sales.
A) Joe; Ralph
B) Ralph; Larry
C) Larry; Ralph
D) Larry; Joe

Answer: B
Explanation: Larry's opportunity cost of selling cars is lower than anyone else's, and Ralph's opportunity cost of selling trucks is lower than anyone else's.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

42) The textbook notes that the last time a major league batter hit .400 was in 1941. This is because:
A) the average quality of batters has fallen.
B) the league imposes harsh penalties for steroid use.
C) specialization by pitchers, infielders, and outfielders has made it harder for batters to hit.
D) baseball diamonds have become larger.

Answer: C
Explanation: Baseball players are more specialized now than in the past. It's hard to hit a .400 against a specialist pitcher.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
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43) Ginger and Maryann are lost in the jungle, where the only things to eat are mangoes and fish. Ginger can gather more mangoes per hour than Maryann and can also catch more fish per hour than can Maryann. Therefore:
A) there are no gains to specialization and trade for Ginger.
B) there are no gains to specialization and trade for Maryann.
C) Maryann should specialize in the activity for which she has a comparative advantage.
D) Ginger should specialize in the activity for which she has an absolute advantage.

Answer: C
Explanation: Even if one person has an absolute advantage over the other in both activities, they will collectively accomplish more if each specializes in the activity for which she has a comparative advantage.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

44) In general, individuals and nations should specialize in producing those goods for which they have a(n):
A) absolute advantage.
B) comparative advantage.
C) absolutely comparative advantage.
D) absolute advantage and a comparative advantage.

Answer: B
Explanation: The Principle of Comparative Advantage states that people should specialize in the activities for which their opportunity cost is the lowest (that is, the activities in which they have a comparative advantage).
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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45) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. What is Leo's opportunity cost of making a pound of fudge?
A) 0.8 of a pound of toffee
B) 1.25 pounds of toffee
C) 4 pounds of toffee
D) 5 pounds of toffee

Answer: B
Explanation: If Leo spends an hour making fudge, he gives up on 5 pounds of toffee to get 4 pounds of fudge, so his opportunity cost of each pound of fudge is 1.25 (= 5/4) pounds of toffee.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

46) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. Which of the following statements is correct?
A) Ana has both an absolute advantage and the comparative advantage in fudge.
B) Ana has the comparative advantage in toffee, but Leo has the absolute advantage in toffee.
C) Ana has the comparative advantage in fudge, but Leo has the absolute advantage in fudge.
D) Leo has both the absolute advantage and the comparative advantage in fudge.

Answer: C
Explanation: Ana's opportunity cost of 1 pound of fudge is 2/3 of a pound of toffee, while Leo's opportunity cost of 1 pound of fudge is 5/4 of a pound of toffee. Since 2/3 < 5/4, Ana has the comparative advantage in fudge. However, since Leo can produce 4 pounds of fudge per hour, while Ana can produce only 3 pounds per hour, Leo has the absolute advantage in fudge.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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47) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. According to The Principle of Comparative Advantage, Ana and Leo will be able to produce more overall if:
A) Ana specializes in fudge and Leo specializes in toffee.
B) Leo specializes in fudge and Ana specializes in toffee.
C) both Leo and Ana specialize in fudge.
D) the Principle of Comparative Advantage does not hold in this example.

Answer: A
Explanation: The Principle of Comparative Advantage states that everyone does best when each person specializes in the activities for which his or her opportunity cost is lowest. In this case, this means that Ana should specialize in fudge and Leo should specialize in toffee.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

48) When Thurston catches 10 fish a day, he can gather a maximum of 40 coconuts, and when he catches 20 fish a day, he can gather a maximum of 30 coconuts. If Thurston's opportunity cost of producing each good increases as he produces more of it, and he decides to catch 30 fish a day, then the maximum number of coconuts he can gather must be:
A) equal to 20.
B) greater than 20.
C) greater than 10.
D) less than 20.

Answer: D
Explanation: If the opportunity cost of going from 10 to 20 fish per day is 10 coconuts, then the opportunity cost of going from 20 to 30 fish per day must be more than 10 coconuts. Thus, since Thurston was able to gather 30 coconuts when he caught 20 fish that means he will be able to gather fewer than 20 coconuts when he catches 30 fish.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Apply
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49) Suppose Karl divides his time between making birdhouses and growing artichokes. Karl's friend recently gave Karl some new woodworking tools that greatly reduced the amount of time it takes Karl to make each birdhouse, but the new tools had no impact on the amount of time it takes Karl to grow artichokes. Thus, the new tools _____ Karl's opportunity cost of growing artichokes.
A) had no effect on
B) decreased
C) increased
D) halved

Answer: C
Explanation: Even though the new tools do not impact Karl's ability to grow artichokes, since Karl is faster at making birdhouses with the new tools, he gives up on making more of them when he spends time growing artichokes.
Difficulty: 3 Hard
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

50) In general, individuals and nations should specialize in producing goods _____ other individuals or nations.
A) that they can produce more quickly than
B) that they can produce less quickly than
C) for which they have a lower opportunity cost compared to
D) for which they have a higher opportunity cost compared to

Answer: C
Explanation: The Principle of Comparative Advantage states that people should specialize in the activities for which their opportunity cost is the lowest.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
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51) A country is most likely to have a comparative advantage in the production of cars if:
A) it imports most of the raw materials necessary to produce cars.
B) its citizens prefer driving cars to other forms of transportation.
C) it has strict environmental protection laws governing automobile emissions.
D) it has a relative abundance in the natural resources needed to produce cars.

Answer: D
Explanation: One source of comparative advantage is large endowments of natural resources.
Difficulty: 2 Medium
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

52) The United States generally has a comparative advantage in the development of technology because it has:
A) large amounts of natural resources.
B) a disproportionate share of the world's best research universities.
C) the greatest need for new technology.
D) patent laws, which no other country has.

Answer: B
Explanation: The Unites States has a disproportionate share of the world's leading research universities where technology is developed and scientists are trained.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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53) The emergence of English as the de facto world language _____ a comparative advantage in the production of books, movies and popular music.
A) has given English-speaking countries
B) has given non-English-speaking countries
C) has no effect on which country has
D) has given all countries

Answer: A
Explanation: The emergence of English as the de facto world language has given English-speaking countries a comparative advantage in language-based production.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
Bloom's: Remember
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54) The United States was unable to maintain its dominance in the production of televisions because:
A) the highly technical skills necessary to produce televisions are greater in other countries.
B) the raw materials necessary to build televisions became scarce in the United States.
C) the product designs evolved too rapidly for engineers in the United States to keep up.
D) automated techniques allowed production to be outsourced to countries with less-skilled workers.

Answer: D
Explanation: When television production required highly-paid and highly-skilled workers, the United States had a comparative advantage in producing televisions, but once production became automated, less-skilled workers in low-wage countries could produce televisions at a lower cost.
Difficulty: 1 Easy
Topic: Exchange and Opportunity Cost
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage and explain how it differs from absolute advantage.
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55) A graph that illustrates the maximum amount of one good that can be produced for every possible level of production of the other good is called a:
A) production possibilities curve.
B) consumption possibilities curve.
C) production function.
D) supply curve.

Answer: A
Explanation: The production possibilities curve describes the maximum amount of one good that can be produced for every possible amount produced of another good.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Remember
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56) The production possibilities curve shows:
A) the minimum amount of one good that can be produced for every possible production level of the other good.
B) how increasing the resources used to produce one good increases the production of the other good.
C) the maximum amount of one good that can be produced for every possible production level of the other good.
D) how increasing the production of one good allows production of the other good to also rise.

Answer: C
Explanation: The production possibilities curve describes the maximum amount of one good that can be produced for every possible level of production of the other good.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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57) Points that lie outside the production possibilities curve are _____, and points that lie inside the production possibilities curve are _____.
A) efficient; inefficient
B) inefficient; efficient
C) unattainable; attainable
D) attainable; unattainable

Answer: C
Explanation: Points that lie outside the production possibilities curve cannot be produced with currently available resources, while those that lie inside the production possibilities curve can be produced with currently available resources.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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58) Points that lie beneath the production possibilities curve are:
A) unattainable and inefficient.
B) unattainable but efficient.
C) attainable but inefficient.
D) attainable and efficient.

Answer: C
Explanation: Points that lie beneath the production possibilities curve are attainable because they can be produced with currently available resources, but they are inefficient because it is possible to increase the production of one good without a reduction in the production of the other.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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59) If a country is producing at point where an increase in the production of one good requires a reduction in the production of another good, then it must be producing at an:
A) inefficient point.
B) efficient point.
C) unattainable point.
D) undesirable point.

Answer: B
Explanation: By definition, an efficient point is any combination of goods for which currently available resources do not allow an increase in the production of one good without a reduction in the production of some other good.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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60) Suppose Colin brews beer and makes cheese. If Colin can increase his production of beer without decreasing his production of cheese, then he is producing at an:
A) inefficient point.
B) efficient point.
C) unattainable point.
D) ideal point.

Answer: A
Explanation: By definition, an inefficient point is any combination of goods for which currently available resources enable an increase in the production of one good without a reduction in the production of some other good.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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61) If Ana devotes all her time to making fudge, she can make 3 pounds of fudge an hour, and if she devotes all her time to making toffee, she can make 2 pounds of toffee an hour. If Leo devotes all his time to making fudge, he can make 4 pounds of fudge an hour, and if he devotes all his time to making toffee, he can make 5 pounds of toffee an hour. Suppose that Ana and Leo decide to work together as a team. Can they produce 2 pounds of fudge and 4.5 pounds of toffee each hour?
A) Yes, this point is both attainable and efficient.
B) No, this point is not attainable.
C) Yes, this point is attainable, but inefficient.
D) No, this point is not attainable and inefficient.

Answer: C
Explanation: If Ana and Leo each specialize in producing the good in which they have a comparative advantage, then Ana can produce 3 pounds of fudge and Leo can produce 5 pounds of toffee. Since together they can produce more than 2 pounds of fudge *and* more than 4.5 pounds of toffee each hour, we know this point is attainable, but inefficient.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

62) The downward slope of the production possibilities curve illustrates the:
A) Scarcity Principle.
B) Cost-Benefit Principle.
C) Incentive Principle.
D) Principle of Comparative Advantage.

Answer: A
Explanation: The downward slope of the production possibilities curve shows that having more of one good means having less of the other.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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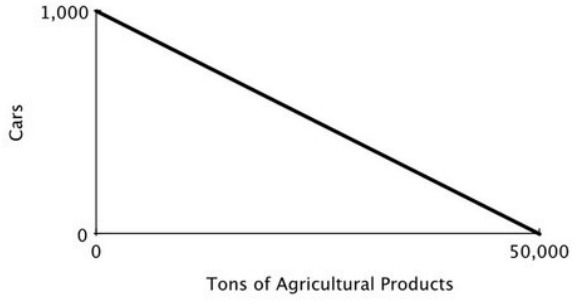
63) The accompanying figure shows the production possibilities curve for the island of Genovia:




The opportunity cost of producing a car in Genovia is:
A) 5,000 tons of agricultural products.
B) 500 tons of agricultural products.
C) 5 tons of agricultural products.
D) 50 tons of agricultural products.

Answer: D
Explanation: To get an additional 1,000 cars, this country would have to give up 50,000 tons of agricultural products. Thus, the opportunity cost of one car is 50,000/1,000 = 50. More generally, the opportunity cost of producing one more unit of the good on the y-axis equals 1 over the absolute value of the slope of the PPC.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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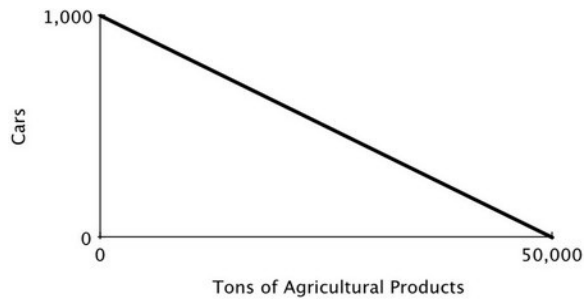


The opportunity cost of producing one ton of agricultural products in Genovia is:
A) 1,000 cars.
B) 1 car.
C) 1/5 of a car.
D) 1/50 of a car.

Answer: D
Explanation: This country would have to give up 1,000 cars to gain 50,000 tons of agricultural products. Thus, the opportunity cost of one ton of agricultural products is 1,000/50,000 = 1/50 of a car. More generally, the opportunity cost of producing one more unit of the good on the x-axis equals the absolute value of the slope of the PPC.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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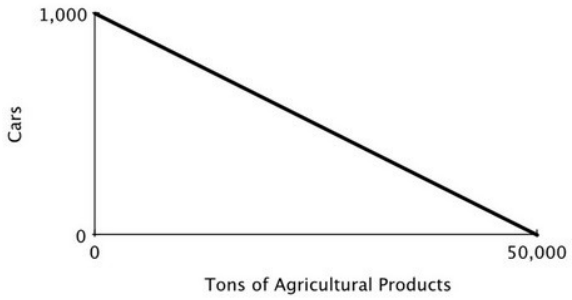


If 500 cars are produced in Genovia, a maximum of _____ tons of agricultural products can be produced.
A) 50,000
B) 25,000
C) 45,000
D) 40,000

Answer: B
Explanation: Imagine Genovia is producing 50,000 tons of agricultural products and no cars. For every additional car that Genovia produces, it has to give up 50 tons of agricultural products. So if it produces 500 cars, then it has to give up 25,000 (= 500 × 50) tons of agricultural products. Since 50,000 - 25,000 = 25,000, this means that if Genovia produces 500 cars, a maximum of 25,000 tons of agricultural products can be produced.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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66) The slope of a production possibilities curve is _____ because _____.
A) negative; producing more of one good requires producing less of the other
B) negative; producing less of one good requires producing less of the other
C) positive; producing more of one good requires producing more of the other
D) positive; producing more of one good requires producing less of the other

Answer: A
Explanation: The downward slope of the production possibilities curve shows that having more of one good means having less of the other.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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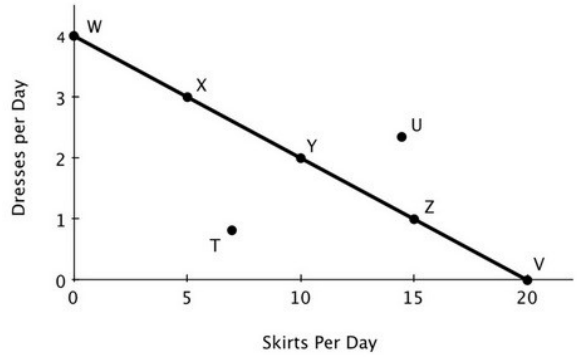
67) The accompanying figure shows Becky's daily production possibilities curve for dresses and skirts.




The maximum number of dresses that Becky can make in a day is represented by point:
A) *U*
B) *T*
C) *V*
D) *W*

Answer: D
Explanation: If Becky devotes all her resources to making dresses, then point *W* captures the maximum number of dresses she can make each day.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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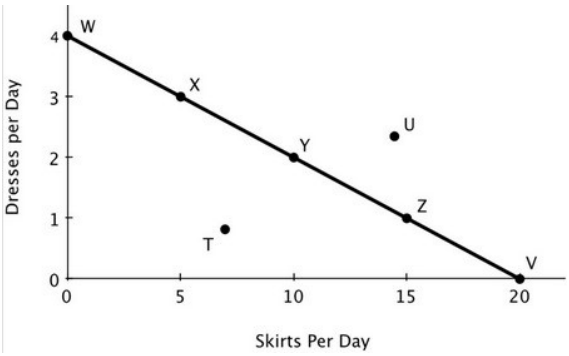


The maximum number of skirts that Becky can make in a day is represented by point:
A) *U*
B) *T*
C) *V*
D) *Z*

Answer: C
Explanation: If Becky devotes all her resources to making skirts, then point *V* captures the maximum number of skirts she can make each day.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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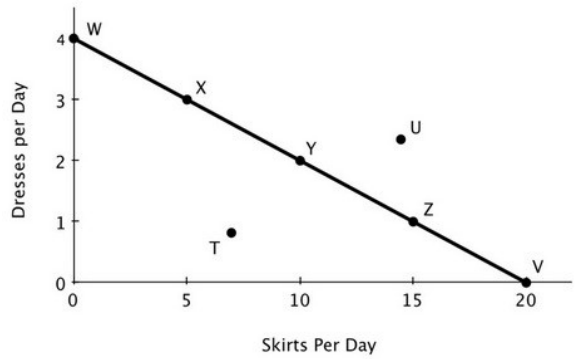


Point *U* is:
A) attainable.
B) efficient.
C) unattainable.
D) inefficient.

Answer: C
Explanation: Points that lie outside the production possibilities curve are unattainable.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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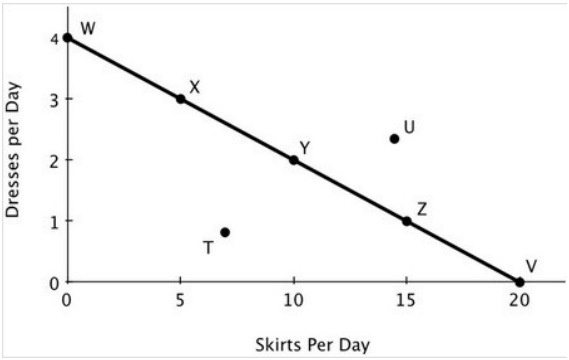


Of the labeled points, only _____ are attainable.
A) *T* and *U*
B) *X*, *Y*, and *Z*
C) *W*, *X, Y*, *Z*, and *V*
D) *W*, *X*, *Y*, *Z*, *V*, and *T*

Answer: D
Explanation: Points along or inside of the production possibilities curve are attainable.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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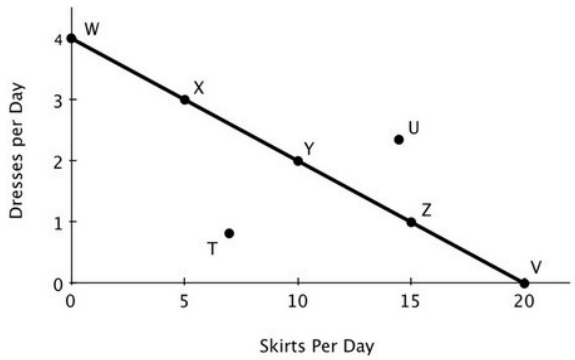


Of the labeled points, only _____ are efficient.
A) *T* and *U*
B) *X*, *Y*, and *Z*
C) *W*, *X, Y*, *Z*, and *V*
D) *W*, *X*, *Y*, *Z*, *V*, and *T*

Answer: C
Explanation: Only points that lie along the production possibilities curve are efficient. Points that lie inside the production possibilities curve are not efficient because more of one good could be produced without sacrificing any of the other.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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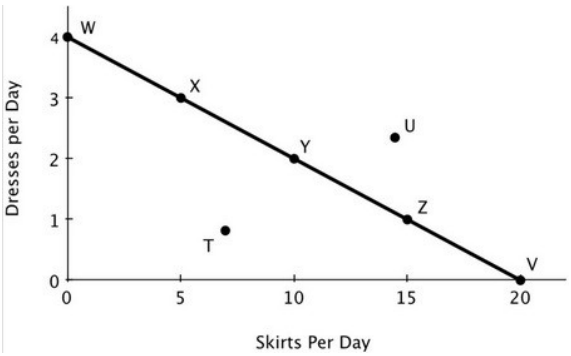


Point *T* is:
A) attainable.
B) efficient.
C) both attainable and efficient.
D) neither attainable nor efficient.

Answer: A
Explanation: Points that lie beneath the production possibilities curve are attainable but inefficient.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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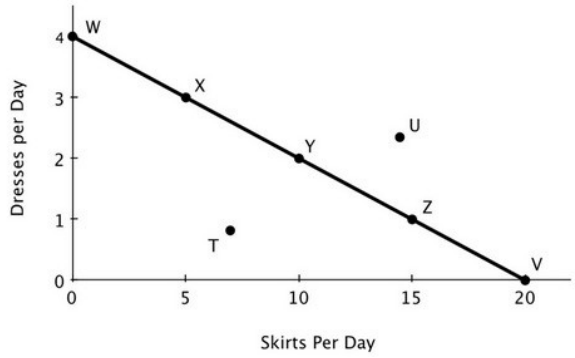


Point *Y* is _____, and point *V* is _____.
A) efficient; inefficient
B) inefficient; efficient
C) efficient; efficient
D) inefficient; inefficient

Answer: C
Explanation: All points that lie along the production possibilities curve are efficient.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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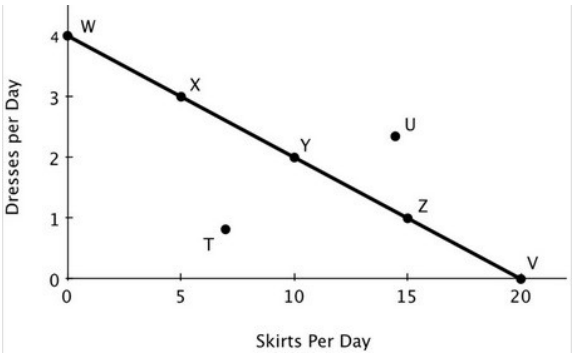


Relative to point *X*, at point *Y*:
A) more dresses and more skirts are produced.
B) more skirts and fewer dresses are produced.
C) more dresses and fewer skirts are produced.
D) fewer skirts and fewer dresses are produced.

Answer: B
Explanation: Moving from point X to point Y, dresses are given up in order to produce more skirts.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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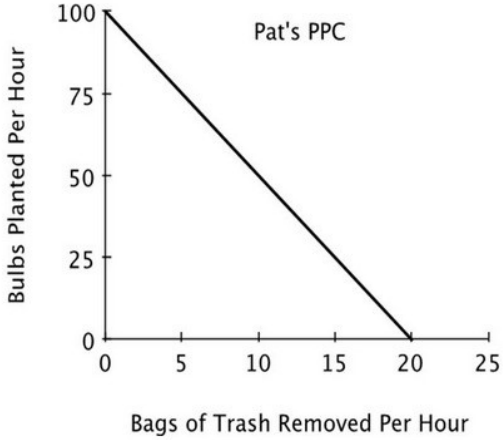
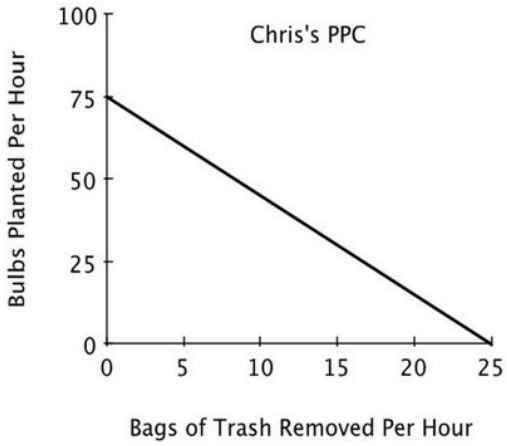
75) Refer to the accompanying figure. For Pat, the opportunity cost of removing one bag of trash is planting:




A) 100 bulbs.
B) 5 bulbs.
C) 1/100 of a bulb.
D) 1/5 of a bulb.

Answer: B
Explanation: Pat gives up planting 100 bulbs to remove 20 bags of trash, so the opportunity cost of removing 1 bag of trash is planting 5 (= 100/20) bulbs. More generally, the opportunity cost of producing an additional unit of the good on the horizontal axis is the absolute value of the slope of the PPC.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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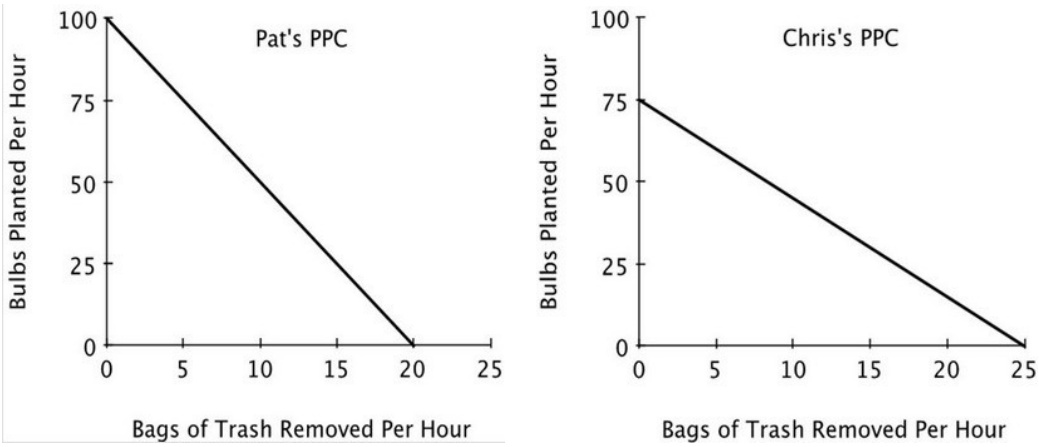


A) 20 bags of trash.
B) 5 bags of trash.
C) 1/20 of a bag of trash.
D) 1/5 of a bag of trash.

Answer: D
Explanation: Pat gives up removing 20 bags of trash to plant 100 bulbs, so the opportunity cost of planting 1 bulb is removing 1/5 (= 20/100) of a bag of trash. More generally, the opportunity cost of producing an additional unit of the good on the vertical axis is the reciprocal of the absolute value of the slope of the PPC (that is, 1/|slope|).
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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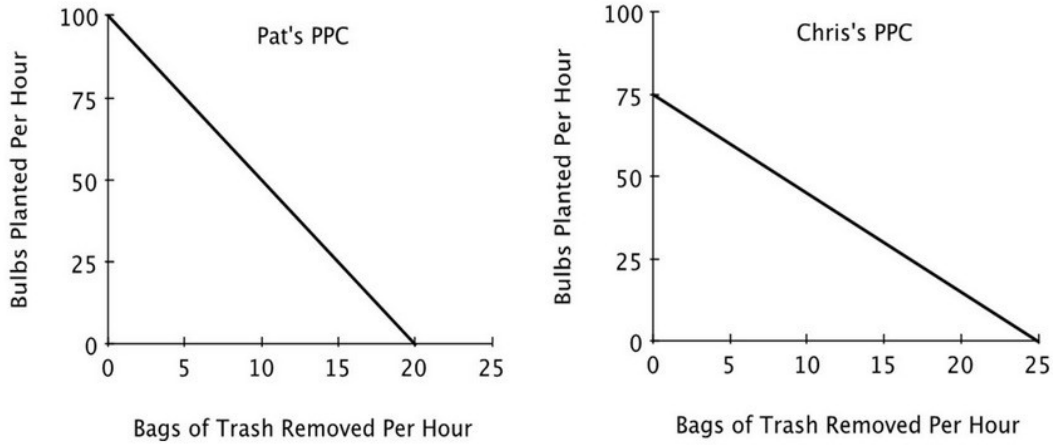
Principles of Macroeconomics 7th edition Frank Test Bank

77) Refer to the accompanying figure. For Chris, the opportunity cost of removing one bag of trash is planting:




A) 25 bulbs.
B) 1/25 of a bulb.
C) 3 bulbs.
D) 1/3 of a bulb.

Answer: C
Explanation: Chris gives up planting 75 bulbs to remove 25 bags of trash, so the opportunity cost of removing 1 bag of trash is planting 3 (= 75/25) bulbs. More generally, the opportunity cost of producing an additional unit of the good on the horizontal axis is the absolute value of the slope of the PPC.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation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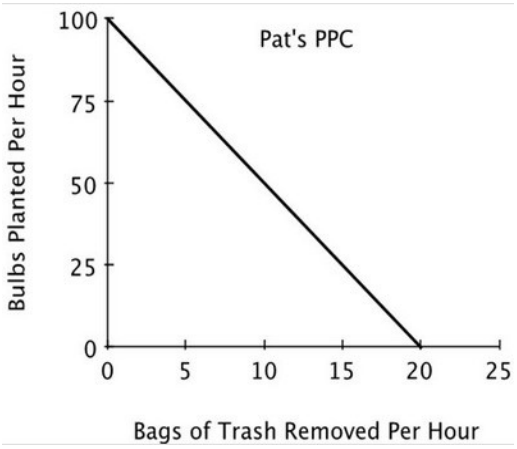
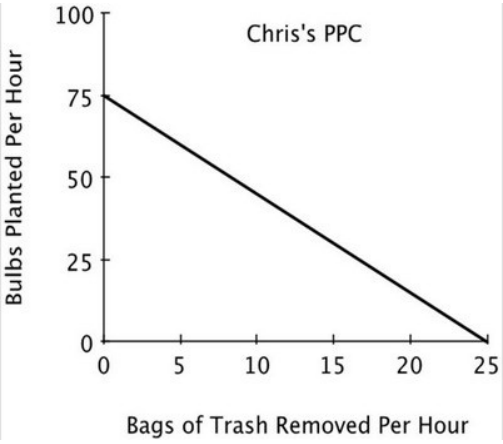
78) Refer to the accompanying figure. For Chris, the opportunity cost of planting one bulb is removing:




A) 25 bags of trash.
B) 1/25 of a bag of trash.
C) 3 bags of trash.
D) 1/3 of a bag of trash.

Answer: D
Explanation: Chris gives up removing 25 bags of trash to plant 73 bulbs, so the opportunity cost of planting 1 bulb is removing 1/3 (= 25/75) of a bag of trash. More generally, the opportunity cost of producing an additional unit of the good on the vertical axis is the reciprocal of the absolute value of the slope of the PPC (that is, 1/|slope|).
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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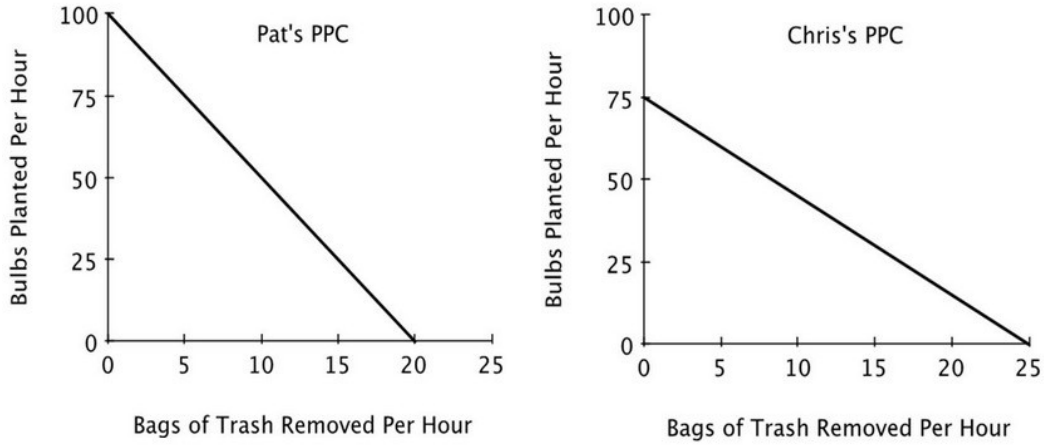
79) Refer to the accompanying figure. If Pat and Chris were to specialize in the task in which each has a comparative advantage:




A) Chris would plant bulbs and Pat would remove trash.
B) Chris would remove trash and Pat would plant bulbs.
C) Pat and Chris would each spend half of their time each task.
D) both Pat and Chris would plant bulbs because they both have an absolute advantage in that task.

Answer: B
Explanation: Chris's opportunity cost of removing trash is lower than Pat's, so Chris should specialize in removing trash. Pat's opportunity cost of planting bulbs is lower than Chris's, so Pat should specialize in planting bulbs.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Evaluate
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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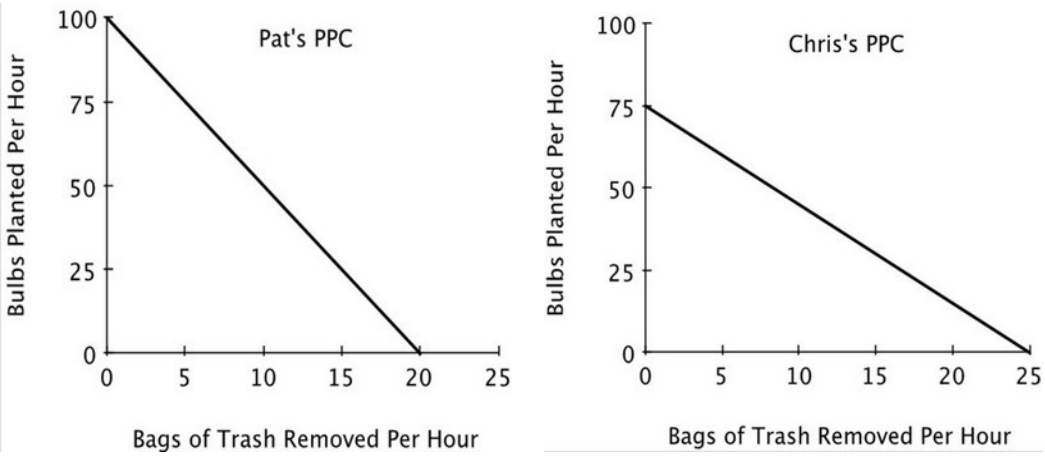
80) Refer to the accompanying figure. If Pat and Chris each spend half their time on each task, then:




A) the outcome will be efficient.
B) they will plant more bulbs and remove fewer bags of trash than if they had each specialized in the task at which they have a comparative advantage.
C) they will plant fewer bulbs and remove fewer bags of trash than if they each had specialized in the task at which they have a comparative advantage.
D) the outcome will be unattainable.

Answer: C
Explanation: If they each split their time, then each hour, Pat can plant 50 (= 100/2) bulbs and remove 10 (= 20/2) bags of trash, and Chris can plant 37.5 (= 75/2) bulbs and remove 12.5 (= 25/2) bags of trash. Thus, together, they will be able to plant 87.5 bulbs and remove 22.5 bags of trash. This is less than they would be able to do if they each specialized in the task in which they have a comparative advantage. With Pat specializing in planting bulbs and Chris specializing in removing trash, they could plant 100 bulbs and remove 25 bags of trash.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Evaluate
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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81) On a graph of a production possibilities curve, if a point is attainable, then it:
A) must be efficient.
B) might or might not be efficient.
C) is efficient only if it does not exhaust all currently available resources.
D) must completely exhaust all currently available resources.

Answer: B
Explanation: Points along and beneath the production possibilities curve are attainable, but only points along the curve are efficient.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

82) Any combination of goods that can be produced with currently available resources is an:
A) attainable point.
B) efficient point.
C) inefficient point.
D) attainable and efficient point.

Answer: A
Explanation: Attainable points are defined as any combination of goods that can be produced using currently available resources.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Remember
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83) On a graph of a production possibilities curve, an inefficient point is:
A) necessarily an attainable point.
B) not necessarily an attainable point.
C) necessarily an unattainable point.
D) possibly an unattainable point.

Answer: A
Explanation: Inefficient points can be produced using currently available resources so they are attainable.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

84) Consider a graph of a production possibilities curve. If a producer is operating at an inefficient point, then that producer:
A) cannot produce more of one good without giving up some of the other good.
B) can produce more of one good without producing less of the other good.
C) must be at an unattainable point on the production possibilities curve.
D) must be specializing in activities for which it has a comparative advantage.

Answer: B
Explanation: Inefficient points lie below the production possibilities curve, so it is possible to produce more of one good without producing less of the other good.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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85) Points that lie below the production possibilities curve are inefficient because:
A) more of one good could be produced without producing less of the other.
B) producing more of one good means producing less of the other.
C) producers face scarcity.
D) too many goods are being produced.

Answer: A
Explanation: Inefficient points lie below the production possibilities curve, so it is possible to produce more of one good without producing less of the other.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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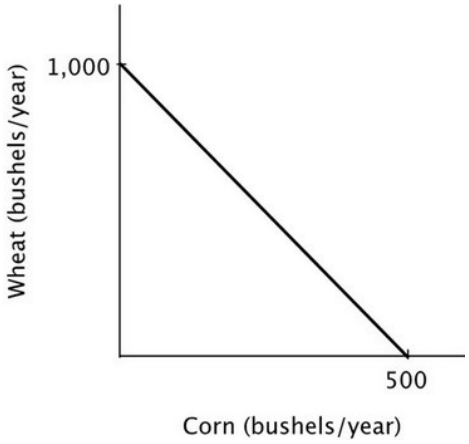
86) Refer to the accompanying figure. Growing 1,000 bushels of wheat and no bushels of corn each year is:




A) inefficient and unattainable.
B) inefficient but attainable.
C) efficient but unattainable.
D) efficient and attainable.

Answer: D
Explanation: All points along the production possibilities curve are efficient and attainable.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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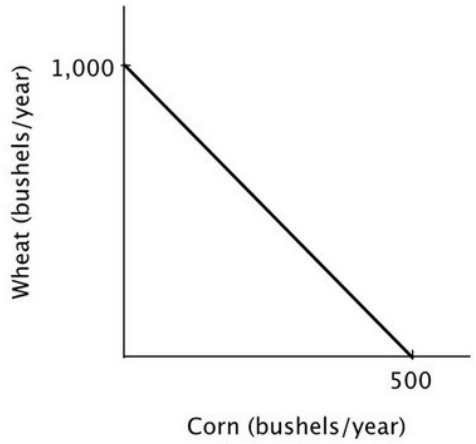
87) Refer to the accompanying figure. It is efficient for this farmer to:




A) grow 500 bushels of wheat and 500 bushels of corn.
B) grow 250 bushels of wheat and 500 bushels of corn.
C) grow 500 bushels of wheat and 250 bushels of corn.
D) grow 1,000 bushels of wheat and 500 bushels of corn.

Answer: C
Explanation: If this farmer produces 500 bushels of wheat and 250 bushels of corn, then they are producing at a point on the production possibilities curve, so we know it is efficient.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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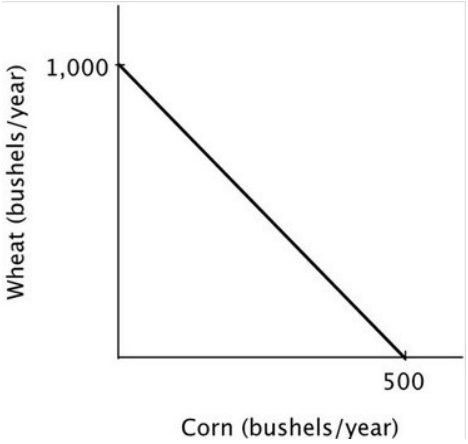
88) Refer to the accompanying figure. The opportunity cost of producing one bushel of corn is:




A) 2 bushels of wheat.
B) ½ of a bushel of wheat.
C) 500 bushels of wheat.
D) 250 bushels of wheat.

Answer: A
Explanation: This farmer can grow twice as much wheat as corn in a year. So, each bushel of corn grown means giving up two bushels of wheat. More generally, the opportunity cost of producing an additional unit of the good on the horizontal axis is the absolute value of the slope of the PPC.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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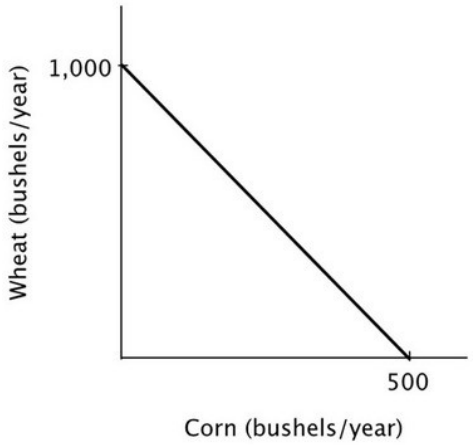
89) Refer to the accompanying figure. The opportunity cost of producing one bushel of wheat is:




A) 2 bushels of corn.
B) ½ of a bushel of corn.
C) 1,000 bushels of corn.
D) 500 bushels of corn.

Answer: B
Explanation: This farmer has to give up 500 bushels of corn to produce 1,000 bushels of wheat. So the opportunity cost of producing 1 bushel of wheat is ½ (= 500/1,000) of a bushel of corn. More generally, the opportunity cost of producing an additional unit of the good on the vertical axis is the reciprocal of the absolute value of the slope of the PPC (that is, 1/|slope|).
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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90) If a given production combination is known to be attainable, then it:
A) must be on the production possibilities curve.
B) must be an inefficient point.
C) must be an efficient point.
D) could be either an inefficient or efficient point.

Answer: D
Explanation: Attainable points are those that lie on or below the production possibilities curve. Points on the curve are efficient; points below the curve are inefficient.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

91) If a given production combination is efficient, then it must be:
A) above the production possibilities curve.
B) on the production possibilities curve.
C) either an attainable or unattainable point.
D) below the production possibilities curve.

Answer: B
Explanation: Only points on the production possibilities curve are efficient because, at these points, in order to produce more of one good, you must forgo some production of the other good.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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92) Working efficiently, Jordan can write 3 essays and outline 4 chapters each week. It must be true that:
A) 6 essays and 0 chapter outlines would be unattainable.
B) 2 essays and 3 chapter outlines would be efficient.
C) 3 essays and 5 chapter outlines would be unattainable.
D) 4 essays and 3 chapter outlines would be both attainable and efficient.

Answer: C
Explanation: If a point is efficient, then it is impossible to have more of one activity without giving up some of the other. So, Jordan cannot increase the number of outlined chapters to 5 while still writing 3 essays.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

93) Assume point *A* on a linear production possibilities curve represents the combination of 12 coffees and 3 cappuccinos, and point *B* represents 3 coffees and 6 cappuccinos. Suppose coffees are on the vertical axis and cappuccinos are on the horizontal axis. The absolute value of the slope of the production possibilities curve between points *A* and *B* equals:
A) 6.
B) 4.
C) 3.
D) 1/3.

Answer: C
Explanation: Moving from point *A* to point *B*, 9 coffees are given up in exchange for 3 additional cappuccinos. Slope is rise/run. In this case, the rise is -9 and the run is +3, so the absolute value of the slope is 3 (=|-9/3|).
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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94) Assume point *A* on a linear production possibilities curve represents the combination of 12 coffees and 3 cappuccinos, and point *B* represents 3 coffees and 6 cappuccinos. Suppose coffees are on the vertical axis and cappuccinos are on the horizontal axis. The opportunity cost of a cup of coffee is:
A) 3 cappuccinos.
B) 9 cappuccinos.
C) 1/3 of a cappuccino.
D) 6 cappuccinos.

Answer: C
Explanation: Moving from point *B* to point *A*, involves giving up 3 cappuccinos to get 9 cups of coffee, so the opportunity cost of 1 cup of coffee is 1/3 (= 3/9) of a cappuccino.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

95) Generally, on a linear two-good production possibilities curve, the opportunity cost of the good measured on the vertical axis is:
A) one minus the opportunity cost of the good measured on the horizontal axis.
B) the reciprocal of the opportunity cost of the good measured on the horizontal axis.
C) the absolute value of the slope of the production possibilities curve.
D) the negative of the opportunity cost of the good measured on the horizontal axis.

Answer: B
Explanation: The absolute value of the slope of the production possibilities curve gives you the opportunity cost of the good measured on the horizontal axis, and the reciprocal of the absolute value of the slope of the production possibilities curve gives you the opportunity cost the good measured on the vertical axis.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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96) If a linear, two-good production possibilities curve has a slope of –2, then:
A) having an additional unit of the good measured on the vertical axis means giving up 2 units of the good measured on the horizontal axis.
B) having an additional unit of the good measured on the vertical axis means giving up ½ of a unit of the good measured on the horizontal axis.
C) you have an absolute advantage in the good measured on the vertical axis.
D) you have a comparative advantage in the good measured on the vertical axis.

Answer: B
Explanation: The absolute value of the slope of the production possibilities curve gives you the opportunity cost of the good measured on the horizontal axis, and the reciprocal of the absolute value of the slope of the production possibilities curve gives you the opportunity cost the good measured on the vertical axis.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

97) The idea that tradeoffs have to be made when resources are scarce is reflected in the fact that:
A) points below the production possibilities curve are efficient.
B) points below the production possibilities curve are inefficient.
C) the production possibilities curve has a negative slope.
D) the slope of a linear production possibilities is constant.

Answer: C
Explanation: The downward slope of the production possibilities curve captures the idea that because resources are limited, having more of one good means having less of the other.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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98) In a two-person, two-good economy, the gains to specialization will be larger when:
A) one person has an absolute advantage in both goods.
B) neither person has an absolute advantage.
C) there are small differences between the individuals in their opportunity costs of producing the two goods.
D) there are large differences between the individuals in their opportunity costs of producing the two goods.

Answer: D
Explanation: The greater are the differences between individuals in their opportunity costs, the greater are the gains to specialization.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

99) According to the Principle of Increasing Opportunity Cost, in expanding the production of any good, we should start by utilizing the resources that:
A) we have the most of.
B) we have the least of.
C) have the highest opportunity cost.
D) have the lowest opportunity cost.

Answer: D
Explanation: The Principle of Increasing Opportunity Cost stats that in expanding the production of any good, we should first employ those resources that have the lowest opportunity cost, and only afterwards turn to resources with higher opportunity costs.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Remember
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100) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

The opportunity cost of making a calculator for Smith is _____ and for Jones it is _____.
A) 0.10 computers; 0.05 computers
B) 10 computers; 20 computers
C) 1 computer; 0.5 computers
D) 0.6 computers; 1.2 computers

Answer: A
Explanation: In an hour, Smith can either make 10 computers or 100 calculators, so his opportunity cost of making 1 calculator is 0.10 (= 10/100) computers. Jones can either make 120 calculators or 6 computers, so his opportunity cost of making 1 calculator is 0.05 (= 6/120) computers.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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Principles of Macroeconomics 7th edition Frank Test Bank

101) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones devote all of their resources to producing computers, then the maximum number of computers they can produce in an hour is:
A) 120.
B) 6.
C) 16.
D) 10.

Answer: C
Explanation: If they devote all of their resources to making computers, Smith can make 10 and Jones can make 6, for a total of 16.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

102) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 16 computers and 0 calculators per hour. If they wish to produce 14 computers and 40 calculators per hour efficiently, then Smith should spend _____, and Jones should spend _____.
A) 1 hour making computers; 40 minutes making computers and 20 minutes making calculators
B) 1 hour making computers; 20 minutes making computers and 40 minutes making calculators
C) 30 minutes making each; 30 minutes making each
D) 45 minutes making computers and 15 making calculators; 1 hour making calculators

Answer: A
Explanation: Jones has a comparative advantage in producing calculators, so he should make all 40 calculators. He can make 2 calculators per minute, so this will take him 20 minutes. He can use the remaining 40 minutes to make 4 computers (since it takes him 10 minutes to make a computer). Smith should spend the whole hour making the 10 other computers.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation


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Principles of Macroeconomics 7th edition Frank Test Bank

103) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 0 computers and 220 calculators per hour. If they wish to produce 2 computers and 200 calculators per hour efficiently, then Smith should spend _____, and Jones should spend _____.
A) 30 minutes making each; 30 minutes making each
B) 48 minutes making computers and 12 minutes making calculators; 1 hour making calculators
C) 1 hour making calculators; 10 minutes making computers and 50 minutes making calculators
D) 12 minutes making computers and 48 minutes making calculators; 1 hour making calculators

Answer: D
Explanation: Smith has a comparative advantage in producing computers, so he should make the 2 computers. It takes him 6 minutes to make a computer, so making 2 computers will take him 12 minutes. He can use the remaining 48 minutes to make 80 calculators (80 = (48/60) × 100). Jones should spend the entire hour making the remaining 120 calculators.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

104) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones are dividing their time efficiently and producing more than 10 computers and fewer than 120 calculators per hour, then Smith will _____ and Jones will _____.
A) produce only computers; produce only calculators
B) produce only computers; split his time between computers and calculators
C) split his time between computers and calculators; produce only computers
D) produce only calculators; produce only computers

Answer: B
Explanation: Smith has a comparative advantage in producing computers so should only make those. Jones should make the remaining computers and all of the calculators.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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105) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

If Smith and Jones are dividing their time efficiently and producing fewer than 10 computers and more than 120 calculators per hour, then Smith will _____ and Jones will _____.
A) split his time between computers and calculators; produce only calculators
B) produce only calculators; split his time between computers and calculators
C) produce only calculators; produce only computers
D) produce only computers; produce only calculators

Answer: A
Explanation: Jones has a comparative advantage in producing calculators so should only make those. Smith should make the remaining calculators and all of the computers.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

106) Smith and Jones comprise a two-person economy. Their hourly rates of production are shown in the accompanying table.

| | Calculators Per Hour | Computers Per Hour |
|---|---|---|
| Smith | 100 | 10 |
| Jones | 120 | 6 |

Suppose Smith and Jones begin by producing 100 calculators per hour; as Smith and Jones choose to efficiently produce fewer computers and more calculators, _____ should devote more time to calculators because his _____.
A) Smith; absolute advantage is larger
B) Jones; absolute advantage is smaller
C) Jones; opportunity costs are lower
D) Smith; opportunity costs are lower

Answer: C
Explanation: Jones has a comparative advantage in making calculators, so should make all of the calculators until more than 120 are needed.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

107) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Mother Lode to another mine is:
A) 2 tons per day.
B) 3 tons per day.
C) 4 tons per day.
D) 1 ton per day.

Answer: C
Explanation: At Mother Lode, 25 miners produce 100 tons per day, so the opportunity cost of moving one miner from Mother Lode is 4 (= 100/25) tons per day.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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108) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Scraping Bottom to another mine is:
A) 0 tons per day.
B) 3 tons per day.
C) 4 tons per day.
D) 5 tons per day.

Answer: B
Explanation: At Scraping Bottom, 10 miners produce 30 tons per day, so the opportunity cost of moving one miner from Scraping Bottom to another mine is 3 (= 30/10) tons per day.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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109) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

The opportunity cost of moving one miner from Middle Drift to another mine is:
A) 1 ton per day.
B) 3 tons per day.
C) 4 tons per day.
D) 5 tons per day.

Answer: D
Explanation: At Middle Drift, 15 miners produce 75 tons per day, so the opportunity cost of moving one miner from Middle Drift to another mine is 5 (= 75/15) tons per day.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

110) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

Suppose Earth Movers & Shakers needs to fill an order for 60 tons of ore in a single day. If it has no other orders for that day, it should:
A) take it all from Mother Lode.
B) take it all from Middle Drift.
C) take 30 tons from Scraping Bottom and 30 tons from Middle Drift.
D) take 20 tons from each of the three mines.

Answer: B
Explanation: At Mother Lode, each miner produces 4 tons per day; at Scraping Bottom, each miner produces 3 tons per day; and at Middle Drift, each miner produces 5 tons per day. Since all miners are paid the same wage, the cost of producing each ton will be the lowest if you take ore from the mine where each miner produces the most tons per day. So, all 60 tons should be taken from Middle Drift.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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111) Earth Movers & Shakers operates 3 iron ore mines. The accompanying table shows each mine's total daily production and the current number of miners at each mine. All miners work for the same wage, and each miner in any given mine produces the same number of tons per day as every other miner in that mine.

| | Total Tons Per Day | Number of Miners |
|---|---|---|
| Mother Lode | 100 | 25 |
| Scraping Bottom | 30 | 10 |
| Middle Drift | 75 | 15 |

Suppose Earth Movers & Shakers needs to fill an order for 100 tons of ore in a single day. If it has no other orders to fill that day, and it's not possible to transfer miners from one mine to another, it should:
A) take it all from Mother Lode.
B) take 75 tons from Middle Drift and 25 tons from Mother Lode.
C) take 75 tons from Middle Drift and 25 tons from Scraping Bottom.
D) take 30 tons from Scraping Bottom and 70 tons from Mother Lode.

Answer: B
Explanation: At Mother Lode, each miner produces 4 tons per day; at Scraping Bottom, each miner produces 3 tons per day; and at Middle Drift, each miner produces 5 tons per day. Since all miners are paid the same wage, the cost of producing each ton will be the lowest if you take ore from the mine (or mines) where each miner produces the most tons per day. So, you would take 75 tons from Middle Drift, and then take 25 tons from Mother Lode.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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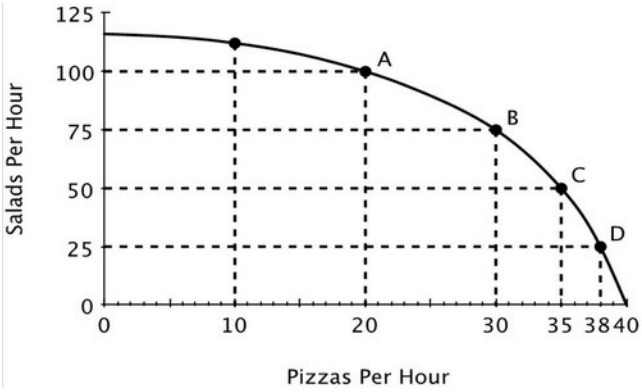
112) Refer to the accompanying figure. If this restaurant makes 75 salads in one hour, then what's the maximum number of pizzas it can make in that same hour?




A) 0
B) 10
C) 20
D) 30

Answer: D
Explanation: From the graph, you can see that if the restaurant produces 75 pizzas in an hour, then it can produce at most 30 pizzas in that same hour. That is, point *B* lies on the production possibilities curve.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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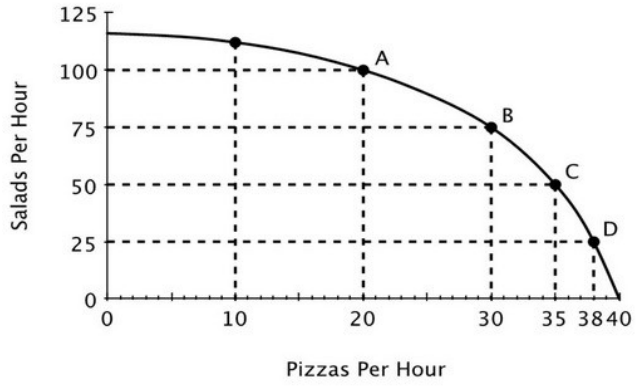
113) Refer to the accompanying figure. Relative to point *B*, at point *C* this restaurant is:




A) making more pizzas and more salads.
B) making more pizzas and fewer salads.
C) making fewer pizzas and more salads.
D) operating more efficiently.

Answer: B
Explanation: At point *B*, the restaurant makes 30 pizzas and 75 salads. At point *C*, the restaurant makes 35 pizzas and 50 salads.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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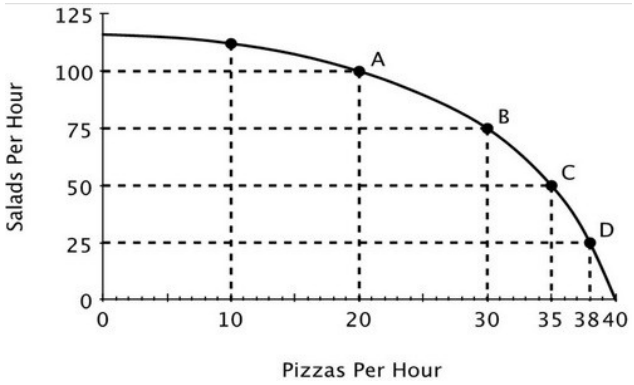
114) Refer to the accompanying figure. Moving from point *C* to point *B*, the opportunity cost of 25 more salads is:




A) 5 pizzas.
B) 10 pizzas.
C) 15 pizzas.
D) 30 pizzas.

Answer: A
Explanation: Moving from point *C* to point *B*, the number of pizzas produced falls from 35 to 30.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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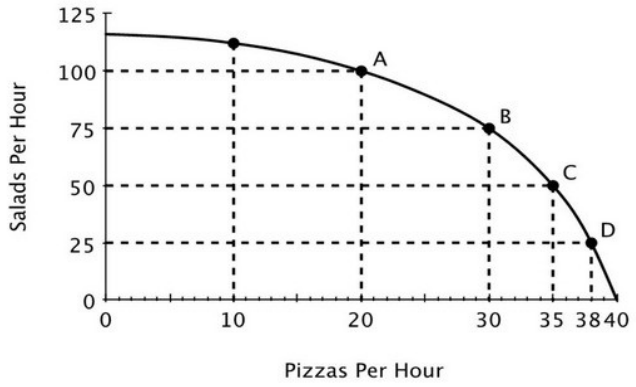
115) Refer to the accompanying figure. Moving from point *B* to point *A*, the opportunity cost of 25 more salads is:




A) 5 pizzas.
B) 10 pizzas.
C) 15 pizzas.
D) 20 pizzas.

Answer: B
Explanation: Moving from point *B* to point *A*, the number of pizzas produced falls from 30 to 20.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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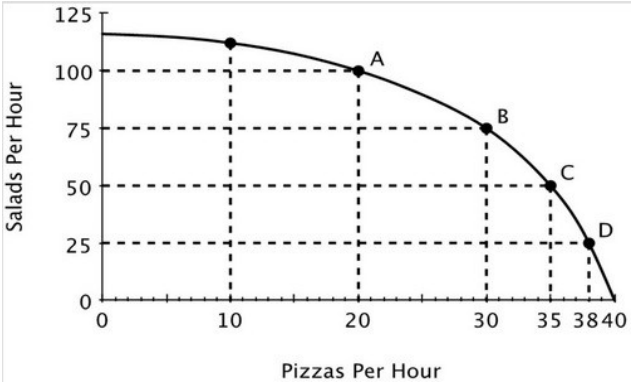
116) Refer to the accompanying figure. The opportunity cost of making an additional salad:




A) remains constant regardless of how many salads are made.
B) increases as the number of salads increases.
C) decreases as the number of pizzas decreases.
D) decreases as the number of salads increases.

Answer: B
Explanation: The fact that the production possibilities curve is bow-shaped reflects increasing opportunity costs.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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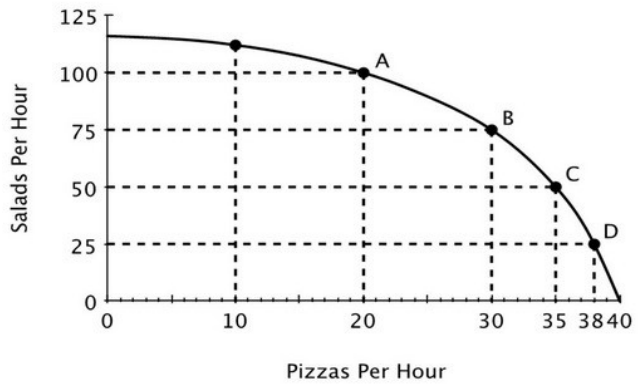
117) Refer to the accompanying figure. If this restaurant goes from producing 20 to 25 pizzas per hour, then which of the following statements is true?




A) It has to give up exactly 25 salads.
B) It has to give up more than 12.5 salads.
C) It has to give up exactly 12.5 salads.
D) It has to give up fewer than 12.5 salads.

Answer: D
Explanation: The fact that the production possibilities curve is bow-shaped indicates increasing opportunity costs. Going from 20 to 30 pizzas per hour, the restaurant has to give up 25 salads. Since opportunity costs are increasing, it will give up fewer salads when it goes from 20 to 25 pizzas than when it goes from 25 to 30 pizzas. Thus, of the 25 salads the restaurant has to give up when it goes from 20 to 30 pizzas, fewer than half of them (that is, fewer than 12.5) will be given up when going from 20 to 25 pizzas.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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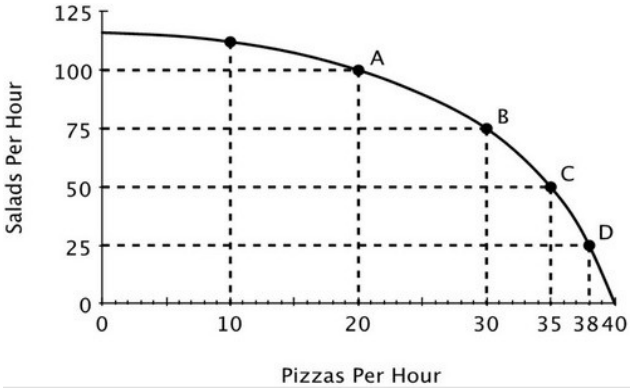
118) Refer to the accompanying figure. As the production of pizza increases, the opportunity cost of producing pizza:




A) doesn't change.
B) decreases.
C) increases.
D) becomes negative.

Answer: C
Explanation: The fact that the production possibilities curve is bow-shaped reflects increasing opportunity costs.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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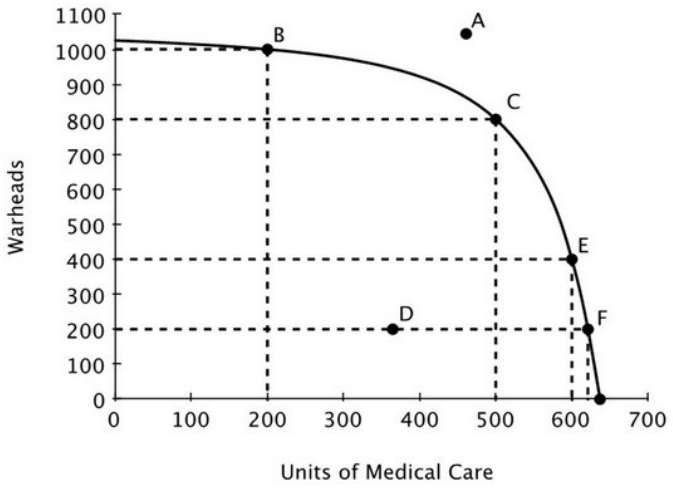
119) Refer to the accompanying figure. Which of the following is true?




A) Point *A* is efficient because it is farthest from the origin.
B) Point *D* is efficient because it requires using the fewest resources.
C) Point *F* is the most efficient because medical care is the highest there.
D) Points *B*, *C*, *E* and *F* are efficient.

Answer: D
Explanation: Every point along a production possibilities curve is efficient.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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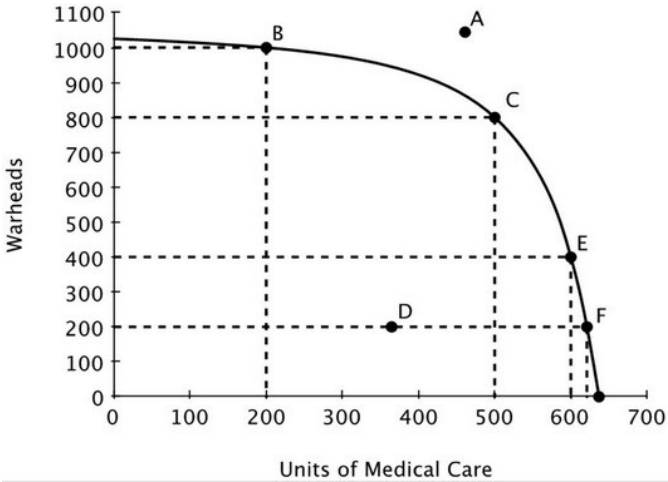
120) Refer to the accompanying figure. Suppose that the government requires that resources be used efficiently. Which of the following would the government definitely not allow?




A) Specialization in warhead production.
B) Specialization in medical care production.
C) Production at any point other than *C*.
D) Production at point *D*.

Answer: D
Explanation: Point *D* is inefficient. It lies under the production possibilities curve.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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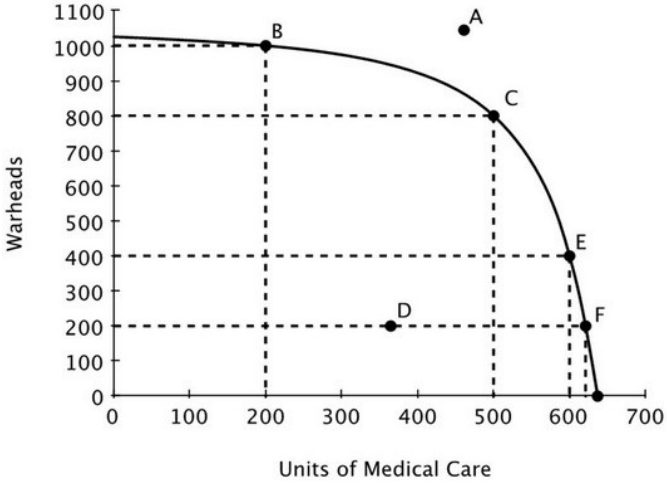
121) Refer to the accompanying figure. If this economy is currently producing at point *C*, then the opportunity cost of providing 100 additional units of medical care would be:




A) 800 warheads.
B) 400 warheads.
C) 200 warheads.
D) 100 warheads.

Answer: B
Explanation: Moving from point *C* to point *E* (an increase of 100 units of medical care), would entail giving up 400 (= 800 - 400) warheads.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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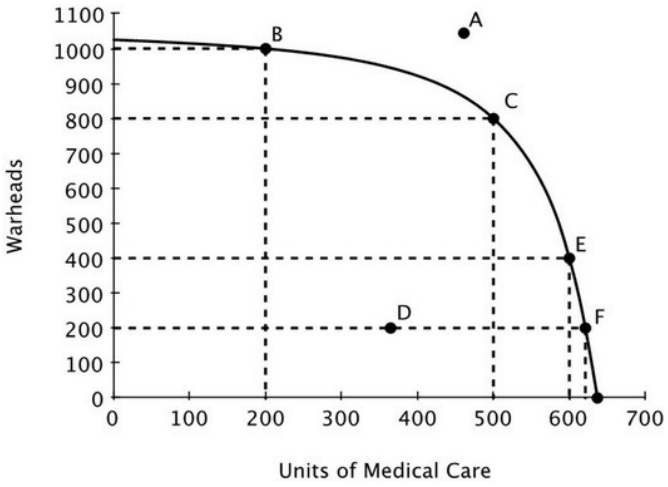
122) Refer to the accompanying figure. The opportunity cost of increasing medical care from 200 to 400 units is _____ the opportunity cost of increasing medical care from 400 to 600 units.




A) greater than
B) less than
C) exactly the same as
D) twice as much as

Answer: B
Explanation: The fact that the PPC is bow-shaped indicates increasing opportunity cost. Thus, as more units of medical care are provided, the opportunity cost of medical care increases.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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123) Production possibilities curves for large economies are generally bow-shaped because:
A) specialization gives some producers a comparative advantage.
B) opportunity costs tend to decrease with increases in production.
C) opportunity costs tend to increase with increases in production.
D) as more resources are used to produce a good, those resources become less expensive.

Answer: C
Explanation: When a production possibilities curve is bow-shaped, this reflects increasing opportunity costs. Increasing opportunity costs arise in large economies because, when expanding production, resources with the lowest opportunity cost should be used first.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

124) The Principle of Increasing Opportunity Costs states that:
A) productive people do the hardest tasks first.
B) when increasing production, resources with the lowest opportunity costs should be used first.
C) when increasing production, resources with the lowest opportunity costs should be used last.
D) opportunity costs increase when too little is produced.

Answer: B
Explanation: This principle is also known as the Low-Hanging-Fruit Principle: take advantage of your least-cost opportunities first.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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125) You have noticed that your next-door neighbor, Mary, always works in the garden, and her husband, Joe, always walks the dog. You conclude that if Joe and Mary are efficient, then it must be the case that:
A) Mary has an absolute advantage in gardening.
B) Joe has a comparative advantage in walking the dog.
C) Mary's opportunity cost of walking the dog is lower than Joe's.
D) Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.

Answer: B
Explanation: Everyone does best when each person specializes in the activity in which he or she has a comparative advantage.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

126) The benefits of specialization can be used to explain why:
A) workers prefer to work on a variety of tasks during the day.
B) machines are more productive than human workers.
C) individuals and nations benefit from trade.
D) big companies take advantage of smaller ones.

Answer: C
Explanation: Specialization allows two parties with different opportunity costs to benefit from trade because by specializing they can increase their combined output.
Difficulty: 1 Easy
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Remember
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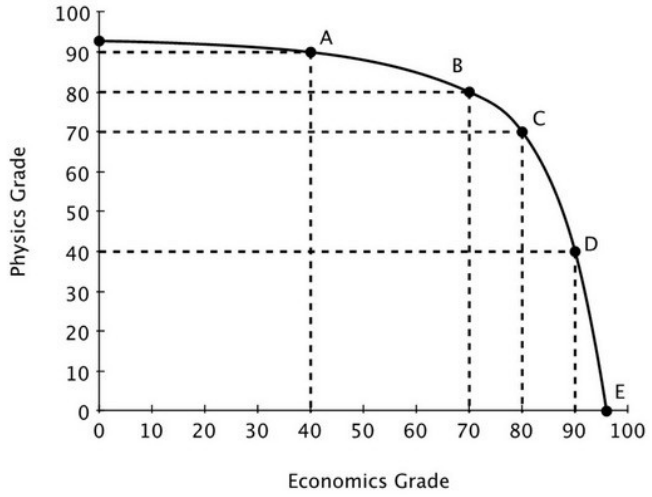
127) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Both of Moe's professors require at least a 65 to pass and a 90 to earn an A. Which of the following is true?
A) Moe can pass both classes.
B) Moe can pass economics, but only if he fails physics.
C) Moe can pass physics, but only if he fails economics.
D) Moe could earn an A in economics and still pass physics.

Answer: A
Explanation: A 65 in each class is attainable since this combination lies beneath his PPC.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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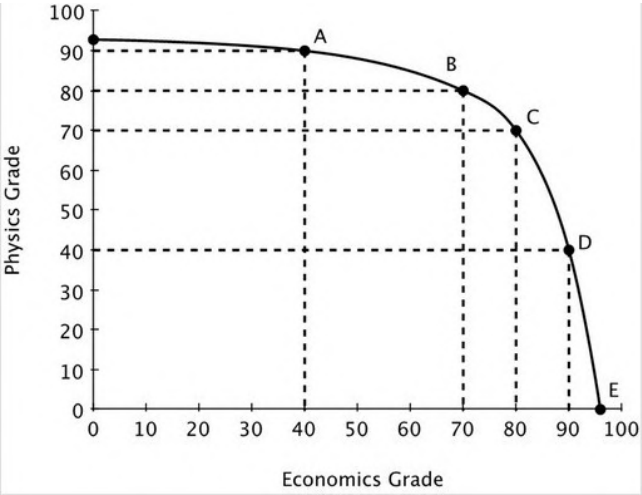
Principles of Macroeconomics 7th edition Frank Test Bank

128) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Which of the following is true?
A) Moe has a comparative advantage in physics.
B) Moe's opportunity cost of studying for each subject is increasing.
C) Moe has a comparative advantage in economics.
D) Moe has an absolute advantage in economics.

Answer: B
Explanation: The fact that his PPC is bow-shaped reflects increasing opportunity costs.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Understand
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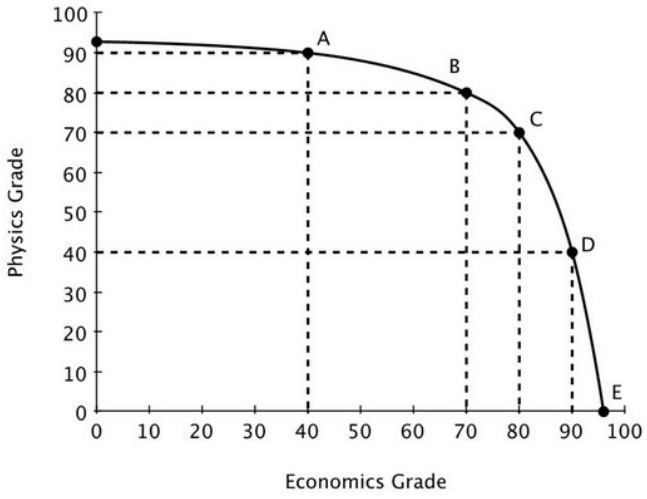
Principles of Macroeconomics 7th edition Frank Test Bank

129) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




According to Moe's PPC, moving from a 70 to an 80 in economics:
A) is inefficient.
B) has a lower opportunity cost than moving from an 80 to a 90.
C) is unattainable.
D) has a higher opportunity cost than moving from an 80 to a 90.

Answer: B
Explanation: When Moe goes from a 70 to an 80 in economics, his physics grade drops by 10 points, and when he goes from an 80 to a 90, his physics grade drops by 30 points.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation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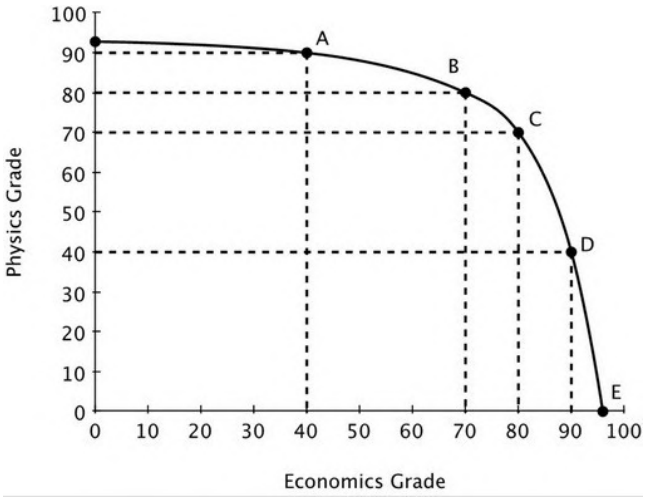
130) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




If Moe moves from Point *A* to point *C*, his grade in Physics will go down by _____ his grade in economics.
A) less than the increase in
B) more than the increase in
C) more than the decrease in
D) less than the decrease in

Answer: A
Explanation: Moving from point *A* to point *C*, Moe's economics grade increases by 40 points (from 40 to 80), while his physics grade falls by only 20 points (90 to 70).
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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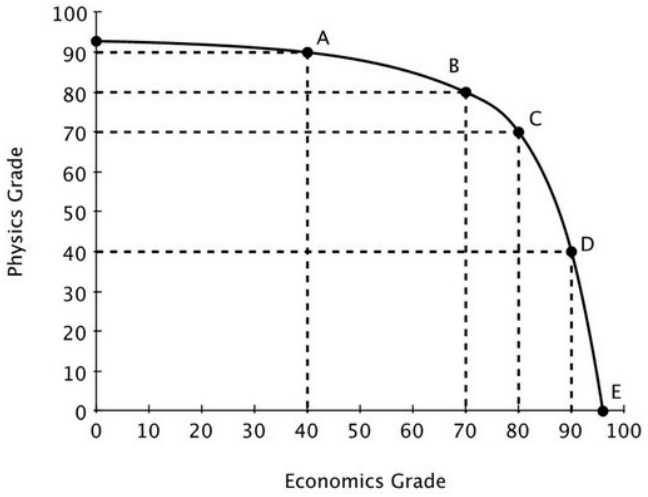
131) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




The Principle of Increasing Opportunity Cost is reflected in the fact that the opportunity cost going from 70 to 80 in economics is:
A) lower than the opportunity cost of going from 80 to 90 in economics.
B) higher than the opportunity cost of going from 80 to 90 in economics.
C) lower than the opportunity cost of going from 80 to 90 in physics.
D) the same as the opportunity cost of going from 70 to 80 in physics.

Answer: A
Explanation: An implication of the Principle of Increasing Opportunity Cost is that as we produce more of a good, the opportunity cost of producing each additional unit of that good increases. In this context, this implies that as Moe's grade in economics increases, the opportunity cost of each additional point increases. This is reflected in the fact that the opportunity cost of going from 70 to 80 in economics is only 10 points in physics, while the opportunity cost of going from 80 to 90 in economics is 30 points in physics.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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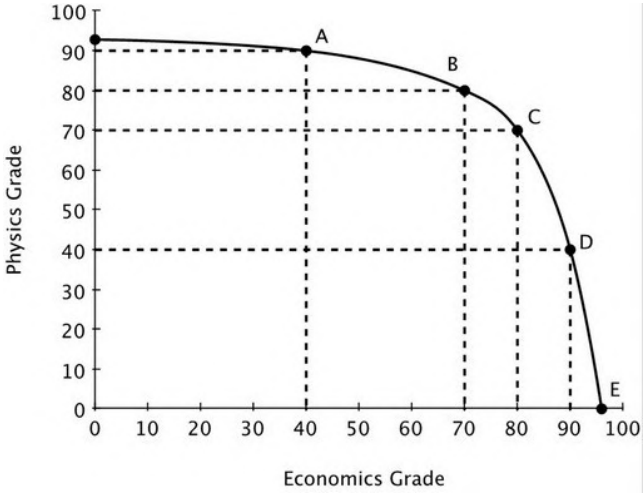
132) Moe divides his time between studying Physics and studying Economics. His production possibilities curve for his final grade in each class is shown in the accompanying figure.




Moe needs to earn at least an 80 in both economics and physics to keep his scholarship. Given his current PPC, an 80 in both classes is _____.
A) unattainable
B) attainable
C) efficient
D) inefficient

Answer: A
Explanation: An 80 in both classes lies outside Moe's PPC, so it is unattainable.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Apply
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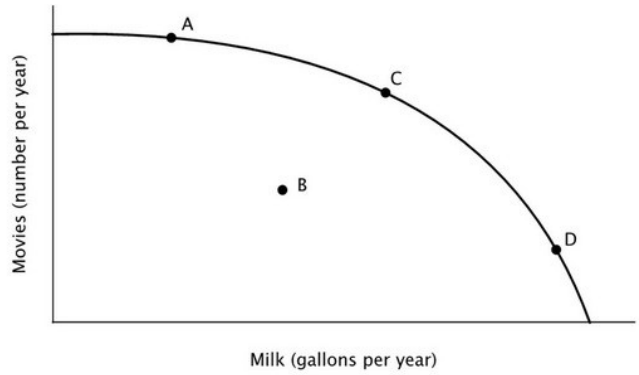
133) Refer to the accompanying figure. For the nation whose PPC is shown, it must be true that:




A) the nation's productive resources are better-suited to making milk than to making movies.
B) the nation's productive resources are better-suited to making movies than to making milk.
C) some of the nation's productive resources are better-suited to making milk, and some are better-suited to making movies.
D) the nation has a comparative advantage in making milk.

Answer: C
Explanation: A bow-shaped PPC is consistent with increasing opportunity costs. This type of PPC arises in an economy with productive resources that have different opportunity costs of producing an additional unit of any given good.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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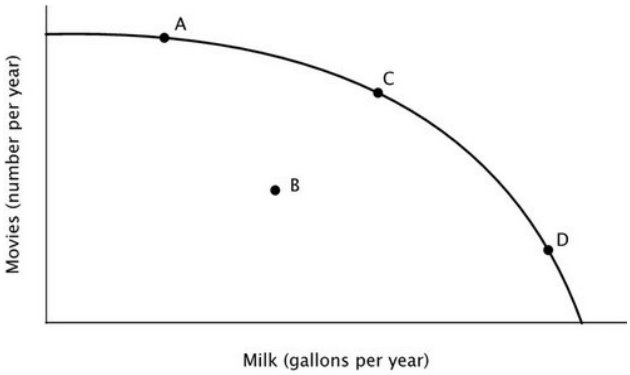
134) Refer to the accompanying figure. At point *D*, the opportunity cost of making milk is:




A) low because the economy is specializing in making milk.
B) high because productive resources that are better-suited to making movies *are not* being used to make milk.
C) high because productive resources that are better-suited to making movies *are* being used to make milk.
D) high because the economy is not operating efficiently.

Answer: C
Explanation: At point *D* almost all of the nation's productive resources are being used to make milk, which implies that resources that are better-suited to making movies are being used to make milk. As a result, the opportunity cost of making milk is high.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Analyze
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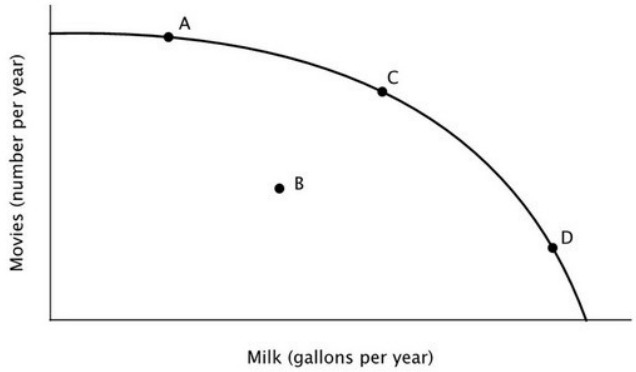
135) Refer to the accompanying figure. This economy would be operating at point *B* if:




A) it was operating efficiently.
B) the opportunity cost of making milk were higher than the opportunity cost of making movies.
C) the opportunity cost of making movies were higher than the opportunity cost of making milk.
D) resources that are better-suited to making movies were being used to make milk, while resources that are better-suited to making milk were being used to make movies.

Answer: D
Explanation: Point B is inefficient. This implies that resources are not being used in their best ways.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
Bloom's: Analyze
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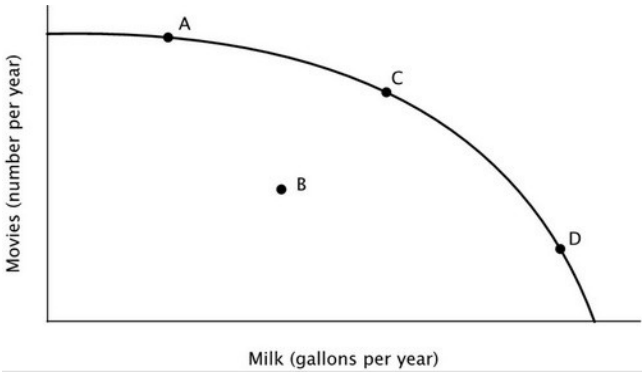
136) Refer to the accompanying figure. If this economy were currently operating at point *D*, then in order to make more movies:




A) the first productive resources to switch to making movies should be those with the lowest opportunity cost of making milk.
B) the first productive resources to switch to making movies should be those with the highest opportunity cost of making milk.
C) no productive resources would need to switch from making milk to movies because point D is already efficient.
D) no productive resources would need to switch from making milk to movies because each resource should continue to be used according to its comparative advantage.

Answer: B
Explanation: Following the Principle of Increasing Opportunity Cost, the first resources to switch to making movies should be those with the highest opportunity cost of making milk.
Difficulty: 3 Hard
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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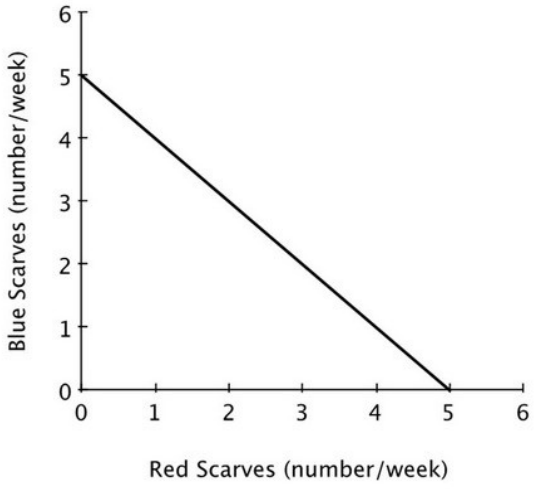
137) The accompanying figure shows Avery's weekly production possibilities curve for scarves.




For Avery, the opportunity cost of making a red scarf is:
A) decreasing.
B) increasing.
C) 1 blue scarf.
D) zero.

Answer: C
Explanation: The absolute value of the slope of this PPC is 1, implying that the opportunity cost of an additional red scarf is 1 blue scarf.
Difficulty: 2 Medium
Topic: Comparative Advantage and Production Possibilities
Learning Objective: 02-02 Explain and apply the Principle of Increasing Opportunity Cost (also called the Low-Hanging-Fruit Principle). Use a production possibilities curve to illustrate opportunity cost and comparative advantage.
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Principles of Macroeconomics 7th edition Frank Test Bank

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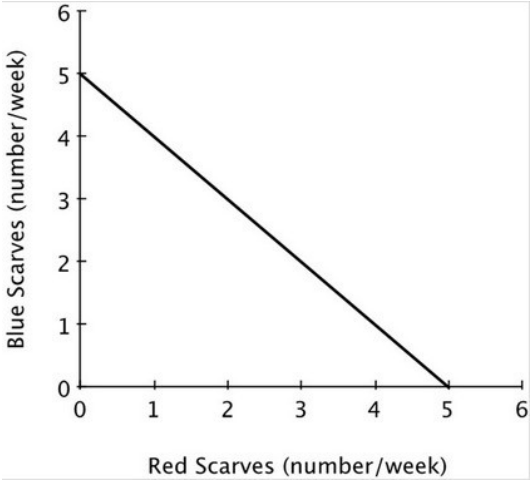


Avery's PPC would shift outward if she:
A) knits more red scarves and fewer blue scarves each week.
B) devotes less time to knitting each week.
C) devotes more time to knitting each week.
D) knits fewer red scarves and more blue scarves each week.

Answer: C
Explanation: An increase in the amount of time spent knitting would be considered an increase in productive resources, which would shift the PPC outward.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

139) Economic growth can result from a(n):
A) increase in the amount of productive resources.
B) increase in number of the minimum wage jobs.
C) increase in the amount of consumer goods produced.
D) decrease in the number of workers available.

Answer: A
Explanation: An increase in the amount of productive resources will shift the PPC outward.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
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140) Which of the following is NOT a reason why there are gains to specialization?
A) It eliminates many of the costs of switching from one task to another.
B) It further improves skills through experience and practice.
C) It increases the amount productive resources in the economy.
D) It allows individuals to concentrate on the activities in which they have a comparative advantage.

Answer: C
Explanation: Specialization does not increase the amount of productive resources; it simply enables those resources to be used more efficiently.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

141) An increase in an economy's productive resources will lead the production possibilities curve to:
A) shift inward.
B) shift outward.
C) become flatter.
D) stay the same.

Answer: B
Explanation: An increase in an economy's productive resources makes it possible to increase the production of all goods, leading the PPC to shift outward.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
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142) Suppose that Nepal invests less in new factories and equipment than does the United States. This will likely cause:
A) Nepal's production possibilities curve to shift outward faster than the U.S.'s.
B) The U.S.'s production possibilities curve to shift inward faster than Nepal's.
C) The U.S.'s production possibilities curve to shift outward faster than Nepal's.
D) Nepal's production possibilities curve to shift inward faster than the U.S.'s.

Answer: C
Explanation: Investment in technology and productive resources shifts the PPC outward.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

143) If a nation restricts imports, it will:
A) benefit each individual citizen in that nation.
B) increase the total value of goods and services produced in that nation.
C) decrease the total value of goods and services produced in that nation.
D) harm each individual citizen in that nation.

Answer: C
Explanation: Restricting imports lowers the total value of goods and services produced by a nation, but individual citizens could be better or worse off.
Difficulty: 2 Medium
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

144) Regarding specialization, it is generally true that:
A) more specialization is always better.
B) less specialization is always better.
C) specialization imposes costs as well as benefits.
D) more specialization is always worse.

Answer: C
Explanation: A cost of specialization is that it reduces variety, which some workers enjoy.
Difficulty: 1 Easy
Topic: Factors that Shift the Economy's Production Possibilities Curve
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation


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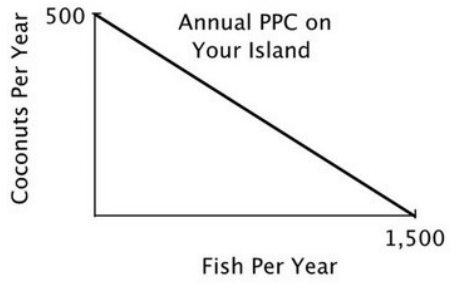
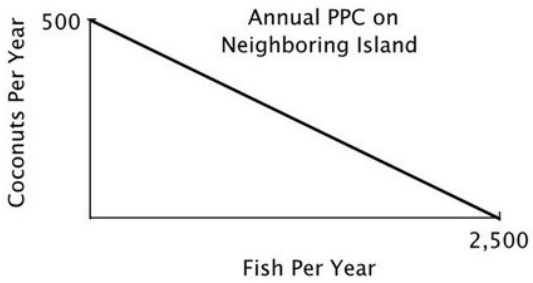
145) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




As soon as you see the other island's PPC, you realize there are:
A) no gains from trade because you both have the same comparative advantage.
B) no gains from trade because there is no difference in your ability to harvest coconuts.
C) no gains from trade because the other island has an absolute advantage.
D) gains from trade because your island has a comparative advantage in coconuts.

Answer: D
Explanation: Your island gives up fewer fish to harvest the same number of coconuts, so your island has a comparative advantage in coconuts.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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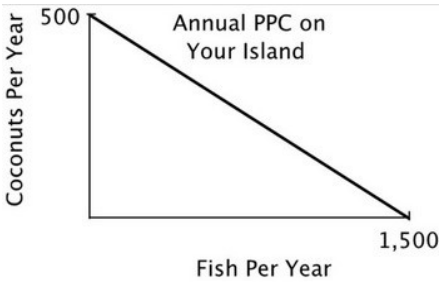
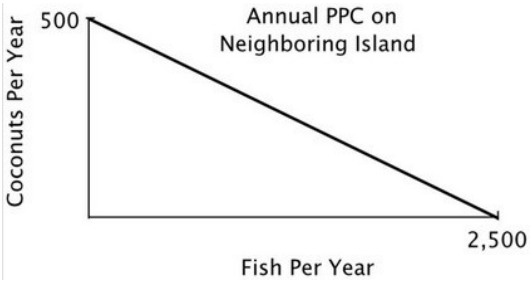
146) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




If the other island's delegate offers to give you 2 fish for every 1 coconut you give them, you will:
A) accept their offer because you do not have the comparative advantage in fish.
B) refuse their offer because the opportunity cost to you of a coconut is more than 2 fish.
C) accept their offer because you do not have an absolute advantage in fish.
D) refuse their offer because the opportunity cost to you of a coconut is less than 2 fish.

Answer: B
Explanation: Every time your island makes a coconut, it has to give up on 3 fish, so you would not be willing to accept a deal in which you only get 2 fish for every coconut.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Evaluate
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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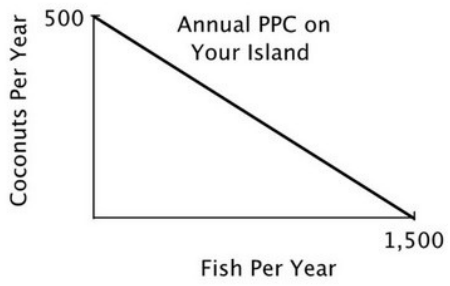
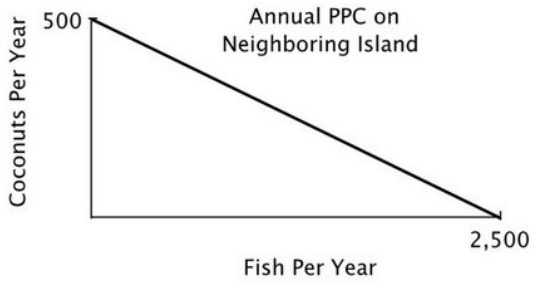
Principles of Macroeconomics 7th edition Frank Test Bank

147) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




What's the minimum number of fish you would be willing to accept in exchange for a coconut?
A) 5
B) 4
C) 3
D) 2

Answer: C
Explanation: Your opportunity cost of a coconut is 3 fish. In order to be better off after trade, you will have to get at least 3 fish per coconut.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation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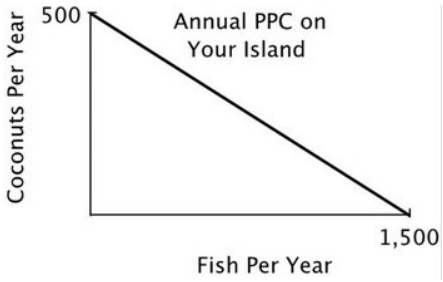
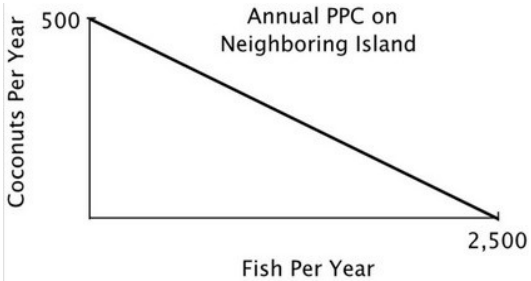
Principles of Macroeconomics 7th edition Frank Test Bank

148) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




If you offer to give the other island 1 coconut for every 4 fish they give you, then they will:
A) refuse your offer because they have a comparative advantage in fish.
B) accept your offer because your opportunity cost of a coconuts is less than 4 fish.
C) refuse your offer because they can produce as many coconuts as you can.
D) accept your offer because their opportunity cost of a coconut is greater than 4 fish.

Answer: D
Explanation: Their opportunity cost of a coconut is 5 fish, so they will be happy to give you 4 fish for a coconut.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation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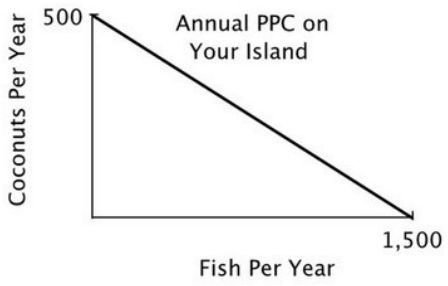
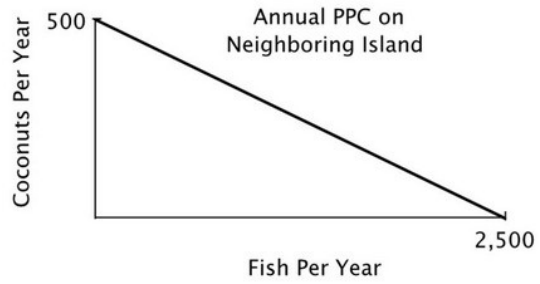
149) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to give 350 coconuts to the other island in exchange for 1,300 fish. After the trade, your island has a total of _____ coconuts and _____ fish.
A) 150; 2,800
B) 500; 1,300
C) 150; 1,300
D) 500; 1,500

Answer: C
Explanation: By specializing, your island produced 500 coconuts and no fish. Trade left you with 150 (= 500 - 350) coconuts and 1,300 fish.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation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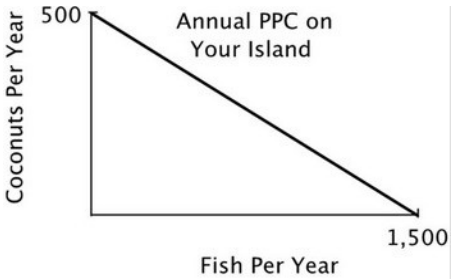
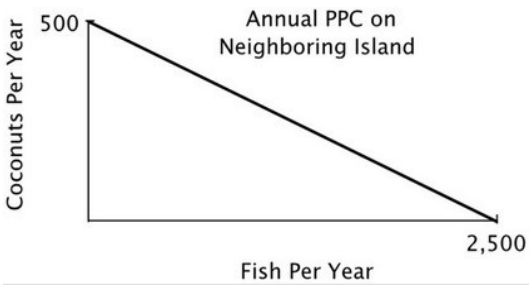
150) You are the Minister of Trade for a small island country with the following annual PPC:




You are negotiating a trade agreement with a neighboring island with the following annual PPC:




Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to give 350 coconuts to the other island in exchange for 1,300 fish. After the trade the other island has a total of _____ coconuts and _____ fish.
A) 850; 1,200
B) 500; 1,200
C) 350; 1,500
D) 350; 1,200

Answer: D
Explanation: By specializing, the other island produced no coconuts and 2,500 fish. Trade left them with 350 coconuts and 1,200 fish (= 2,500 - 1,300).
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Apply
AACSB: Knowledge Application
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151) If country A can produce more of practically everything than can country B, then which of the following statements is true?
A) Country A has no incentive to trade with country B.
B) Country B cannot have a comparative advantage in the production of any good that country A wants to buy.
C) Trade can benefit both countries.
D) Country B has no incentive to trade with country A.

Answer: C
Explanation: As long as each country has a comparative advantage in the production of at least one good that the other country wants, there are benefits to trade.
Difficulty: 3 Hard
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Evaluate
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

152) As the differences in opportunity costs between the U.S. and its trading partners increase, the potential gains from specialization and trade _____.
A) increase
B) decrease
C) stay the same
D) become unpredictable

Answer: A
Explanation: The gains from specialization and trade grow with increases in the opportunity costs between trading partners.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Remember
AACSB: Reflective Thinking
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153) One reason there is political opposition to international trade is that:
A) the potential gains from specialization and trade are small.
B) trade does not increase the total value of goods and services produced by a nation.
C) the differences in opportunity costs between countries are small.
D) not everyone benefits from trade.

Answer: D
Explanation: Although trade increases the total value of goods and services produced by a nation, trade does not necessarily benefit each individual citizen.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

154) One concern regarding the North American Free Trade Agreement (NAFTA) was that it would lead:
A) the total value of goods and services produced by the United States to fall.
B) wages in Mexico to rise.
C) highly skilled workers in the United States to lose their jobs.
D) unskilled workers in the United States to lose their jobs.

Answer: D
Explanation: Since Mexico has a comparative advantage in the production of goods made by unskilled workers, many Americans feared that NAFTA would lead unskilled workers in the United States to lose their jobs to workers in Mexico.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Remember
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155) When a nation reduces the barriers to international trade:
A) each individual citizen becomes better off.
B) each individual citizen becomes worse off.
C) the total value of all goods and services produced by the nation falls.
D) the total value of all goods and serviced produced by the nation rises.

Answer: D
Explanation: While reducing barriers to trade increases total value of all goods and services produced by a nation, it does not guarantee that each individual citizen will be better off.
Difficulty: 2 Medium
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

156) The benefits to specialization are even greater when two trading partners have:
A) absolute advantages in producing the same goods.
B) similar consumption preferences.
C) very similar opportunity costs.
D) large differences in opportunity costs.

Answer: D
Explanation: Greater difference in opportunity costs yields greater benefits from trade.
Difficulty: 2 Medium
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Understand
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157) According to the textbook, the evidence indicates that NAFTA has:
A) reduced the wages of skilled workers in the United States.
B) reduced the employment of unskilled workers in the United States significantly.
C) stopped illegal immigration from Mexico.
D) not significantly reduced the employment of unskilled workers in the United States.

Answer: D
Explanation: Most studies have failed to detect significant overall job loss due to NAFTA.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

158) According to the textbook, NAFTA was expected to help which country exploit its comparative advantage in the production of goods made by unskilled labor?
A) Canada
B) Cuba
C) Mexico
D) The USA

Answer: C
Explanation: NAFTA was expected to help Mexico exploit its comparative advantage in production of goods made by unskilled labor.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
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159) Outsourcing is a term increasingly used to refer to the act of:
A) hiring illegal immigrants.
B) importing raw materials into the United States from other countries.
C) exporting final goods to other countries.
D) replacing relatively expensive American workers with low-wage workers overseas.

Answer: D
Explanation: Outsourcing has come to mean replacing highly paid American workers with cheaper workers overseas.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

160) The fundamental reason firms outsource is that:
A) low-wage workers in other countries are more productive than are U.S. workers.
B) hiring low-wage workers overseas reduces firms' costs.
C) outsourcing increases employment overseas.
D) U.S. workers cannot perform the tasks performed by workers in other countries.

Answer: B
Explanation: Companies outsource because hiring low-wage workers overseas reduces their production costs.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
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161) When a U.S. firm engages in outsourcing, it benefits _____ and harms _____.
A) the firm; the U.S. consumers of the firm's products
B) the U.S. consumers of the firm's products; the firm
C) the U.S. consumers of the firm's products; the firm's U.S. employees
D) the U.S. consumers of the firm's products; the firm's foreign employees

Answer: C
Explanation: Outsourcing benefits U.S. consumers, because they can enjoy lower prices, but harms the firm's domestic workers, because they may lose their jobs.
Difficulty: 2 Medium
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
Bloom's: Understand
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162) All else equal, the jobs that are the least likely to be outsourced are those that:
A) do not involve face-to-face contact.
B) can be done by a computer.
C) require face-to-face communication.
D) can be broken down into series of well-defined steps.

Answer: C
Explanation: Some jobs are less susceptible to outsourcing than others. For example, jobs that require face-to-face communication are difficult to outsource.
Difficulty: 1 Easy
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
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163) Which of the following jobs is least likely to be outsourced?
A) Flipping hamburgers
B) Technical assistance over the phone for your computer
C) Transcription of physicians' records
D) Software design

Answer: A
Explanation: Flipping hamburgers requires on-site labor.
Difficulty: 2 Medium
Topic: Comparative Advantage and International Trade
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more vulnerable to outsourcing than others.
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