Chapter 1—The Central Idea

1. Economics is the study of how people cope with
   a. unlimited resources.
   b. too much money.
   c. scarcity.
   d. limited human wants.
   e. political disputes.

   ANS: C PTS: 1 DIF: basic OBJ: factual
   NAT: The study of economics, and definitions in economics TOP: Scarcity
   BLM: Bloom's: Knowledge

2. The concept of scarcity, as used by economists, refers to
   a. a situation in which an item is very expensive.
   b. a situation in which an item is available only in very small quantities.
   c. a situation in which a resource is nonrenewable.
   d. shortages.
   e. a situation in which the available resources are not enough to satisfy the wants of the people.

   ANS: E PTS: 1 DIF: moderate OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Knowledge

3. The problem of scarcity is
   a. a problem only for poor countries.
   b. a problem only for economies under complete government control.
   c. faced by all economies.
   d. eliminated as the economy grows.
   e. not faced by free market economies.

   ANS: C PTS: 1 DIF: moderate OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Knowledge

4. The basic economic problem is
   a. lack of money.
   b. unemployment.
   c. poverty.
   d. scarcity.
   e. inflation.

   ANS: D PTS: 1 DIF: basic OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Knowledge

5. Who faces the problem of scarcity?
   a. Only the rich
   b. Only the poor
   c. Only people living next to wealthy people
   d. Everyone
   e. Only people living next to poor people

   ANS: D PTS: 1 DIF: moderate OBJ: factual

NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
BLM: Bloom's: Knowledge

6. A resource is not scarce if
   a. there is more of this resource than people want.
   b. it can be found in any store.
   c. people have enough money to pay for it.
   d. it has a low opportunity cost.
   e. its supply exceeds its demand.

   ANS: A PTS: 1 DIF: moderate OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Knowledge

7. If a resource is always available when needed, then it
   a. will be more expensive than other resources.
   b. is not scarce.
   c. has a high opportunity cost.
   d. is not tangible.
   e. is scarce.

   ANS: B PTS: 1 DIF: basic OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Knowledge

8. An important implication of scarcity is that
   a. it inhibits economic interaction.
   b. people are not able to use all the available resources.
   c. people must make a choice.
   d. people will always be poor.
   e. it is a problem that is easily abolished.

   ANS: C PTS: 1 DIF: moderate OBJ: conceptual
   NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
   BLM: Bloom's: Analysis | AACSB: Analytic

9. Economics is a study of
   a. choices and interactions among people when resources are scarce.
   b. how to overcome scarcity.
   c. how to make choices and interact in order to avoid scarcity.
   d. how to avoid scarcity by making choices.
   e. how to make money in stock markets.

   ANS: A PTS: 1 DIF: moderate OBJ: factual
   NAT: The study of economics, and definitions in economics TOP: Economics
   BLM: Bloom's: Knowledge

10. Economics deals with how
    a. individuals make decisions to use scarce resources in order to satisfy their unlimited wants.
    b. to run a business.
    c. individuals become rich.
    d. society can eliminate scarcity.
    e. society creates more resources in order to raise its standard of living.

ANS: A PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Economics
BLM: Bloom's: Knowledge

11. The reason, from an economic perspective, people are forced to choose is because of
    a. social custom.
    b. genetics.
    c. scarcity.
    d. government.
    e. religion.

    ANS: C PTS: 1 DIF: basic OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
    BLM: Bloom's: Knowledge

12. Which of the following statements about economic interaction is *not* true?
    a. It is a fact of economic life.
    b. It requires a market.
    c. It can occur within a family.
    d. It makes our lives better.
    e. It occurs only among different countries.

    ANS: E PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Markets, market failure, and externalities TOP: Economic Interaction
    BLM: Bloom's: Analysis | AACSB: Analytic

13. Where do buyers and sellers meet?
    a. In a government
    b. Only in a face-to-face forum
    c. In a family
    d. In a market
    e. In a firm

    ANS: D PTS: 1 DIF: moderate OBJ: factual
    NAT: Markets, market failure, and externalities TOP: Market
    BLM: Bloom's: Knowledge

14. A market is
    a. a place where firms meet to set prices.
    b. an arrangement by which economic exchanges take place.
    c. an organization controlled by a government.
    d. a place where goods are produced.
    e. anywhere people come close to each other.

    ANS: B PTS: 1 DIF: basic OBJ: factual
    NAT: Markets, market failure, and externalities TOP: Market
    BLM: Bloom's: Knowledge

15. *T* or *F*. Economics is the study of how individuals become wealthy.

    ANS: F PTS: 1 DIF: moderate OBJ: factual
    NAT: The study of economics, and definitions in economics TOP: Economics
    BLM: Bloom's: Knowledge

16. *T* or *F*. Scarcity applies to everyone regardless of income.

ANS: T PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
BLM: Bloom's: Knowledge | AACSB: Analytic

17. *T* or *F*. Choices are made in order to avoid scarcity.

ANS: F PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
BLM: Bloom's: Knowledge | AACSB: Analytic

18. *T* or *F*. An economic transaction occurs only in a market

ANS: T PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Economic Interaction
BLM: Bloom's: Knowledge

19. A budget constraint
    a. does not occur if there is scarcity.
    b. enables choices to be avoided.
    c. is a way to overcome scarcity.
    d. forces people to make choices.
    e. prohibits consumers from spending.

ANS: D PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Budget Constraint
BLM: Bloom's: Knowledge

20. People make decisions when choices involve
    a. no benefits.
    b. only benefits.
    c. nominal costs.
    d. opportunity costs.
    e. unlimited resources.

ANS: D PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge | AACSB: Analytic

21. Choices are made based on
    a. scarcity.
    b. opportunity costs.
    c. producers.
    d. consumers.
    e. supply.

ANS: B PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge | AACSB: Analytic

22. The opportunity cost of a choice is the
    a. cost associated with making a choice.
    b. value of the next best activity not chosen.
    c. fair market price of whatever is chosen.
    d. amount paid to purchase what is chosen.

e. consequence associated with failure.

ANS: B PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge

23. John has only one hour to study for an exam in history or to complete a written report in economics. The opportunity cost of spending the hour writing the economics report is
a. a lower grade in the history exam.
b. a higher grade in the history exam.
c. a lower grade in both the history exam and the economics report.
d. a higher grade in both the history exam and the economics report.
e. none because history and economics are unrelated.

ANS: A PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Application | AACSB: Analytic

24. John's budget is such that he can afford either a computer or a Caribbean vacation, both of which cost the same. Which of the following statements about his opportunity cost is correct?
a. The opportunity cost of a Caribbean vacation is the money John pays for the vacation.
b. The opportunity cost of the vacation is the same as the opportunity cost of the computer because John can afford only one or the other.
c. There is nothing to say about the opportunity cost because we don't know how much the computer or the Caribbean vacation costs.
d. The opportunity cost of going on a vacation is the loss from not being able to buy the computer.
e. The opportunity cost of the computer is the total cost of the computer and the Caribbean vacation.

ANS: D PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Application | AACSB: Analytic

25. Which of the following statements is *false*?
a. There is an opportunity cost associated with any choice made.
b. If there is a budget constraint, there will be scarcity.
c. A financial budget constraint must exist for an opportunity cost to exist.
d. Opportunity costs occur because of scarce resources.
e. Because of scarcity, choices have to be made.

ANS: C PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge | AACSB: Analytic

26. An example of opportunity cost
a. is sweets given up by a person who would never eat them even if he or she could.
b. for a professor of economics is the pleasure that he or she derives from teaching economics.
c. is the Chinese food that you gave up when you chose to eat Italian food.
d. is the tuition you pay to attend college.
e. is the price paid for a ticket when you go to the movies.

ANS: C PTS: 1 DIF: basic OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

BLM: Bloom's: Application | AACSB: Analytic

27. According to the textbook, the main reason for Mark Zuckerberg to leave college and to start a new company, Facebook, is that
    a. he had failed many courses in college.
    b. the opportunity cost is higher for him to stay in college than to run Facebook.
    c. the opportunity cost is lower for him to stay in college than to run Facebook.
    d. the opportunity cost is zero for him to stay in college.
    e. the opportunity cost is zero for him to run Facebook.

    ANS: B PTS: 1 DIF: moderate OBJ: conceptual | factual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

28. The opportunity cost of attending college
    a. is zero because the return is always positive.
    b. includes the skills earned from attending college.
    c. is the living expenses, which are the same whether the students attend college or not.
    d. includes the lost wages that would have been earned if the student had not attended college.
    e. includes the scholarships for attending college.

    ANS: D PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

29. Of the following individuals, who bears the highest opportunity cost of going to college?
    a. A pro-football player earning $1 million a year
    b. A high school graduate without a job
    c. A high school dropout earning the minimum wage in a fast-food restaurant
    d. A person being laid off by a company
    e. A retiree

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

30. When the economy is in recession, jobs are generally harder to find and more people go to college. We can conclude that the opportunity cost of
    a. going to college decreases when the economy is in recession.
    b. going to college increases when the economy is in recession.
    c. working increases when the economy is in recession.
    d. working is zero when the economy is in recession.
    e. going to college is always higher than the opportunity cost of working.

    ANS: A PTS: 1 DIF: challenging OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

31. Kyle has two options to spend her school break in the summer: get a summer job that pays $2,000 or travel in Europe. The opportunity cost of the summer job is that Kyle
    a. can earn more than $2,000.
    b. can also travel in Europe.
    c. has to give up traveling in Europe.
    d. can save the money for traveling in Europe.

e. has to work and travel at the same time.

ANS: C PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Application | AACSB: Analytic

Exhibit 1-1

Hours Spent on Economics	Economics Grade	Math Grade
0	30	95
1	70	85
2	80	55
3	90	15

32. Refer to Exhibit 1-1. Suppose that Jack has three hours to study for an exam in economics and another exam in math on the same day. The amount of time he spends studying economics and its relation to his grade in the two classes are shown in the table. The opportunity cost of increasing the time spent on studying economics from one hour to two hours is
    a. 85 points on the math grade.
    b. 55 points on the math grade.
    c. 30 points on the math grade.
    d. 20 points on the math grade.
    e. zero.

    ANS: C PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

33. Gains from voluntary trade arise because
    a. it reallocates goods between individuals.
    b. it occurs in a household.
    c. it reallocates goods between individuals in a way they both prefer.
    d. it occurs in a market.
    e. of the power involved.

    ANS: C PTS: 1 DIF: moderate OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: Gains from Trade
    BLM: Bloom's: Knowledge

34. A voluntary exchange of existing consumer goods is beneficial because it
    a. makes those engaging in the exchange better off.
    b. changes the total quantity of goods produced.
    c. reallocates existing goods.
    d. reduces scarcity.
    e. requires choice.

    ANS: A PTS: 1 DIF: basic OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: Gains from Trade
    BLM: Bloom's: Knowledge

35. *T* or *F*. The opportunity cost for a student to attend college is zero if the student receives a scholarship.

    ANS: F PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

BLM: Bloom's: Application | AACSB: Analytic

36. *T* or *F*. A rich individual who can afford anything and everything does not need to be concerned with opportunity costs.

ANS: F PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Analysis | AACSB: Analytic

37. *T* or *F*. Gains from trade occur when there are differences in opportunity cost.

ANS: T PTS: 1 DIF: moderate OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Knowledge

38. *T* or *F*. A college student faces no opportunity cost if her parents pay her college tuition and her living expenses.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge

39. *T* or *F*. Trade takes place when one party gains at the expense of another party.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Knowledge

Exhibit 1-2

Anne the Cook	Cook Full Time	Cook and Wait on Customers
Meals Cooked per Day	20	4
Customers Waited on per Day	0	4

Sam the Waiter	Wait Full Time	Cook and Wait on Customers
Meals Cooked per Day	0	4
Customers Waited on per Day	20	4

40. According to Exhibit 1-2, if Sam did all the cooking as well as waited on tables, how many customers would he be able to serve per day?
a. 4
b. Between 2 and 20 customers
c. 0
d. 20
e. 5

ANS: A PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade

TOP: Choices for Individual Producers BLM: Bloom's: Application | AACSB: Analytic

41. According to Exhibit 1-2, if Anne spent all her time cooking, how many meals would she be able to prepare per day?
    a. 20
    b. 2
    c. 4
    d. 40
    e. 5

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Gains from trade, specialization and trade
    TOP: Choices for Individual Producers BLM: Bloom's: Application | AACSB: Analytic

42. According to Exhibit 1-2, if Anne and Sam each worked separately, how many meals per day would be served by each of them?
    a. 40
    b. 4
    c. 2
    d. 20
    e. 5

    ANS: B PTS: 1 DIF: challenging OBJ: conceptual
    NAT: Gains from trade, specialization and trade
    TOP: Choices for Individual Producers BLM: Bloom's: Application | AACSB: Analytic

43. According to Exhibit 1-2, if Anne and Sam join forces, with Anne doing all the cooking and Sam doing all the serving, the number of customers served per day would be
    a. 40.
    b. 4.
    c. 20.
    d. 8.
    e. 5.

    ANS: C PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Gains from trade, specialization and trade TOP: Gains from Trade
    BLM: Bloom's: Application | AACSB: Analytic

44. According to Exhibit 1-2, if Anne and Sam joined forces, the number of meals served would increase by
    a. 8.
    b. 20.
    c. 12.
    d. 4.
    e. 5.

    ANS: C PTS: 1 DIF: challenging OBJ: conceptual
    NAT: Gains from trade, specialization and trade TOP: Gains from Trade
    BLM: Bloom's: Application | AACSB: Analytic

45. ____ must exist in order for gains from trade to be realized.
    a. Governments
    b. Markets
    c. Households
    d. Interaction

e. Firms

ANS: D PTS: 1 DIF: moderate OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Knowledge

46. As a result of economic interaction,
a. the number of available choices is reduced.
b. scarcity is increased.
c. opportunity costs increase.
d. people are able to specialize.
e. scarcity is eliminated.

ANS: D PTS: 1 DIF: basic OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Specialization
BLM: Bloom's: Knowledge

47. The division of labor enables
a. the augmentation of scarcity.
b. the elimination of scarcity.
c. opportunity costs.
d. economic interaction.
e. specialization.

ANS: E PTS: 1 DIF: basic OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Division of Labor
BLM: Bloom's: Knowledge

48. Production can be increased whenever people
a. engage in activities with a high opportunity cost.
b. specialize in whichever field they have a comparative advantage in.
c. specialize in whatever interests them.
d. choose to interact.
e. make decisions.

ANS: B PTS: 1 DIF: moderate OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
BLM: Bloom's: Knowledge

49. If an individual is able to produce a good with relatively less time, effort, or resources than somebody else, then that individual has
a. avoided opportunity costs.
b. an interaction advantage.
c. cornered the market.
d. removed scarcity.
e. a comparative advantage.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
BLM: Bloom's: Knowledge

Exhibit 1-3

John		Jack	
Candy Bars	Ice Cream Bars	Candy Bars	Ice Cream Bars
0	16	0	6
1	12	1	4
2	8	2	2
3	0	3	0

50. Refer to Exhibit 1-3. Suppose John and Jack can produce the above combinations of candy bars and ice cream bars in one hour. John and Jack can maximize their total production if
    a. both produce candy bars.
    b. both produce ice cream bars.
    c. John produces both candy bars and ice cream bars, while Jack produces nothing.
    d. Jack produces both candy bars and ice cream bars, while John produces nothing.
    e. each of them produces what he has a comparative advantage in producing.

    ANS: E PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
    BLM: Bloom's: Application | AACSB: Analytic

51. When people specialize in the activity in which they have a comparative advantage,
    a. there cannot be a division of labor, though production will increase.
    b. there will likely be a division of labor as well as an increase in output.
    c. there will be a gain from trade, but production will not be increased.
    d. there will likely be a division of labor, and output will stay the same.
    e. there will likely be a division of labor, and output will decline.

    ANS: B PTS: 1 DIF: moderate OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: Division of Labor
    BLM: Bloom's: Knowledge

52. *T* or *F*. The goods individual producers specialize in are determined by absolute advantage.

    ANS: F PTS: 1 DIF: moderate OBJ: factual
    NAT: Gains from trade, specialization and trade
    TOP: Choices for Individual Producers BLM: Bloom's: Knowledge

53. *T* or *F*. Trade enables people to specialize in activities in which they have a comparative advantage.

    ANS: T PTS: 1 DIF: moderate OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: Specialization
    BLM: Bloom's: Knowledge

54. *T* or *F*. A division of labor occurs when some workers do all tasks while others do nothing.

    ANS: F PTS: 1 DIF: basic OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: Division of Labor
    BLM: Bloom's: Knowledge

55. *T* or *F*. It is impossible for two people to increase their total production if one has a comparative advantage in the production of one particular good.

    ANS: F PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
    BLM: Bloom's: Analysis | AACSB: Analytic

56. Which of the following statements is *true*?
    a. There are no gains from trade between people in different countries because, with international trade, it's the countries that trade, and not its people, that realize the gains.
    b. Trade between people in different countries cannot occur.
    c. Trade between people in different countries can occur, but it will not result in an increase in consumer satisfaction.
    d. Trade between people in different countries can occur, but it will not lead them to better utilize their comparative advantage.
    e. Trade between people in different countries can occur, and the gains that occur are the same as the gains from trade within a country.

    ANS: E PTS: 1 DIF: moderate OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: International Trade
    BLM: Bloom's: Knowledge | AACSB: Analytic

57. A country trades with other countries because
    a. it can gain in production and consumption.
    b. it wants to improve foreign relations.
    c. its government can earn taxes on imported goods.
    d. it has an excess production capacity.
    e. its residents always prefer imported goods to domestic goods.

    ANS: A PTS: 1 DIF: basic OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: International Trade
    BLM: Bloom's: Knowledge

58. *T* or *F*. Trade always results in a gain for one or both participants.

    ANS: T PTS: 1 DIF: basic OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: International Trade
    BLM: Bloom's: Knowledge

59. *T* or *F*. International trade exists only when a country can gain a trade advantage over another country.

    ANS: F PTS: 1 DIF: basic OBJ: factual
    NAT: Gains from trade, specialization and trade TOP: International Trade
    BLM: Bloom's: Knowledge

60. In general, what is economics the study of?

    ANS:
    Economics is the study of choices made when there is scarcity, as well as the interaction between people when they make these choices.

    PTS: 1 DIF: basic OBJ: factual
    NAT: The study of economics, and definitions in economics TOP: Economics
    BLM: Bloom's: Knowledge

61. What is the relationship among economic interaction, specialization, comparative advantage, and gains from trade?

    ANS:

Economic interaction enables people to exchange their goods and services. People can then specialize in whichever area they are most proficient. As a result, there is a division of labor. If this specialization results in each of them producing one good or service with fewer resources than the others, then each person who specializes has a comparative advantage in that task. This enables production to occur more efficiently, which means more will be produced.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Comprehension

62. Explain how trade between two different countries is similar to trade occurring within a country.

ANS:
Trade between two countries is similar to trade within a country because it enables people either to better satisfy their preferences for goods by trading or to better utilize their comparative advantage.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: International Trade
BLM: Bloom's: Analysis | AACSB: Analytic

63. Why is it reasonable to assume that when trade is voluntary, those involved in the trade will gain?

ANS:
As long as the decision to trade is voluntary, it would not be rational for individuals to engage in trade unless the lives of those engaged in the exchange were somehow enhanced. Otherwise, they would not engage in trade.

PTS: 1 DIF: basic OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Analysis | AACSB: Analytic

64. What is meant by a division of labor, and why is this a reason for economic interaction?

ANS:
A division of labor occurs when different workers specialize in different tasks. If workers produce the goods for which they have a comparative advantage, this specialization increases the gains from interaction.

PTS: 1 DIF: basic OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Division of Labor
BLM: Bloom's: Knowledge | AACSB: Analytic

65. What is meant by comparative advantage?

ANS:
An individual or a group has a comparative advantage in producing one good relative to another if it can produce it more efficiently (i.e., with less time, resources, or effort) than another individual or group.

PTS: 1 DIF: moderate OBJ: factual
NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
BLM: Bloom's: Knowledge

66. After purchasing a quart of milk from a convenience store, John complains that the store ripped him off because it charged too much for the milk. Comment.

ANS:
If John purchased the milk on a voluntary basis (in other words, nobody forced him to purchase the milk from the store), then the exchange of his money for the quart of milk had to be to his advantage. Otherwise, he would not have made the purchase.

PTS: 1 DIF: challenging OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Application | AACSB: Analytic

67. The table below depicts the choices George and Sarah face when deciding whether to cook, wait on tables, or both.

George the Cook	Cook Full Time	Cook and Wait on Customers
Meals Cooked per Day	25	6
Customers Waited on per Day	0	6
Sarah the Waitress	Wait Full Time	Cook and Wait on Customers
Meals Cooked per Day	0	4
Customers Waited on per Day	0	6

(A) In which area, if any, does Sarah have a comparative advantage? In which area does George have a comparative advantage?
(B) If George and Sarah do not get together, how many customers will be served?
(C) If George and Sarah do get together, how many customers will be served? What will be the gain resulting from this exchange?

ANS:
(A) Sarah has a comparative advantage in waiting tables. George has a comparative advantage in cooking.
(B) A total of 10 customers will be served.
(C) Twenty-five customers will be served. The net gain from this exchange of services is 15 more meals being served.

PTS: 1 DIF: challenging OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Application | AACSB: Analytic

68. Which of the following is *not* considered to be scarce for an economy as a whole?
a. Money
b. Workers
c. Land
d. Machinery
e. Factories

ANS: A PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Resources
BLM: Bloom's: Knowledge | AACSB: Analytic

69. Choices are made whenever
    a. money is limited.
    b. there are too many alternatives.
    c. resources are limited relative to human wants.
    d. the society has abundant resources.
    e. different people in an economy want different things.

ANS: C PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Scarcity
BLM: Bloom's: Knowledge

70. *T* or *F*. Choices are necessary only for individuals but not for the economy as a whole.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Choice
BLM: Bloom's: Knowledge

71. If available resources are being used efficiently,
    a. a society can increase the production of one good or service only by decreasing the production of some other good or service.
    b. society need no longer worry about tradeoffs.
    c. a society can increase the production of one good or service only by increasing the production of some other good or service.
    d. resources are no longer limited.
    e. scarcity is no longer a problem.

ANS: A PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Production Possibilities
BLM: Bloom's: Knowledge | AACSB: Analytic

72. Suppose that an economy produces only two goods: computers and movies. If the economy at all times utilizes all its resources, and it decides to use more of its available resources to produce computers,
    a. the production of movies will drop.
    b. the production of both movies and computers will drop.
    c. the production of movies will rise.
    d. the production of movies will not change but the production of computers will increase.
    e. then will be no change in the production of either computers or movies.

ANS: A PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Production Possibilities
BLM: Bloom's: Application | AACSB: Analytic

73. Josie has two classes: English and math. She finds out that the grades for both classes has improved without spending more time studying. Using the production possibilities curve, Josie's situation can be represented by
    a. moving from a point on the production possibilities curve to a point inside the curve.
    b. a movement along the curve from the axis for English to the axis for math.
    c. a movement along the curve from the axis for math to the axis for English.
    d. an inward shift of the curve.
    e. an outward shift of the curve.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

74. *T* or *F*. The production possibilities curve shows how an economy increases its output with more resources.

ANS: F PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Production Possibilities
BLM: Bloom's: Knowledge

75. Which of the following does a production possibilities schedule best illustrate?
    a. The concept of achieving an impossible goal
    b. The concept of unlimited possibilities
    c. The concept of an opportunity cost
    d. The elimination of scarcity
    e. The concept of a good

ANS: C PTS: 1 DIF: basic OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge

76. If an economy produces only movies and computers, then the opportunity cost of producing more movies is
    a. the value of forgone computer production.
    b. the value of more computer production.
    c. the value of movie production minus the value of computer production
    d. the total value of movie and computer production.
    e. zero because computers and movies are unrelated.

ANS: A PTS: 1 DIF: basic OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Application | AACSB: Analytic

77. If an economy produces only movies and computers, then producing more and more computers will most likely require
    a. giving up a decreasing amount of the production of movies.
    b. giving up an increasing amount of the production of movies.
    c. gaining an increasing amount of the production of movies.
    d. gaining a decreasing amount of the production of movies.
    e. no change in movie production.

ANS: B PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge | AACSB: Analytic

Exhibit 1-4

Production Possibilities for Computers and TV Sets		
Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

78. Refer to Exhibit 1-4. The opportunity cost of producing the first television set is
    a. 15 units of computers.
    b. 5 units of computers.
    c. 43 units of computers.
    d. 42 units of computers.
    e. 1 unit of computers.

    ANS: E PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

79. Refer to Exhibit 1-4. The opportunity cost of producing the sixth television set is
    a. 15 units of computers.
    b. 5 units of computers.
    c. 43 units of computers.
    d. 42 units of computers.
    e. 1 unit of computers.

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Application | AACSB: Analytic

80. *T* or *F*. The typical production possibilities schedule shows that the opportunity cost for producing more of one good requires giving up an increasing amount of production of another good.

    ANS: T PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
    BLM: Bloom's: Knowledge

Exhibit 1-5

Production Possibilities for Computers and TV Sets		
Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

81. Refer to Exhibit 1-5. The production possibilities curve representing the given schedule would be a
    a. negatively sloped curve that bows outward.
    b. negatively sloped straight line.
    c. positively sloped curve that bows outward.
    d. positively sloped curve that bows inward.
    e. positively sloped straight line.

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost
    TOP: Production Possibilities Curve BLM: Bloom's: Knowledge

82. A production possibilities curve shows
    a. what happens to the amount of available resources if it is not possible to produce a good.
    b. what can be produced with unlimited resources.
    c. what happens as available resources in an economy are moved from producing one type of good to another type, or vice versa.
    d. the choice between producing some goods versus other goods with unlimited resources.
    e. the different kinds of products that a firm can produce.

    ANS: C PTS: 1 DIF: moderate OBJ: factual
    NAT: Scarcity, tradeoffs, and opportunity cost
    TOP: Production Possibilities Curve BLM: Bloom's: Knowledge

83. When an economy is operating on its production possibilities curve, more production of one good means less production of another because
    a. wants are unlimited.
    b. resources are limited.
    c. some resources are not employed.
    d. wants are limited.
    e. resources are not perfectly adaptable to alternative uses.

    ANS: B PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost
    TOP: Production Possibilities Curve BLM: Bloom's: Knowledge

84. Which of the following is held constant when constructing a production possibilities curve for the economy?
    a. The opportunity cost
    b. The price level
    c. The amount of resources
    d. The combination of goods produced
    e. The amount of goods produced

ANS: C PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

85. A point lying inside the production possibilities curve
    a. indicates that resources are not being fully or efficiently used.
    b. illustrates resources being used to their fullest potential.
    c. requires more resources than are presently available.
    d. represents an increase in resources.
    e. is not an attainable combination.

ANS: A PTS: 1 DIF: basic OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Inefficient Points
BLM: Bloom's: Knowledge

86. Given a production possibilities curve for defense goods and nondefense goods, if a nation is producing at a point inside the production possibilities curve, then
    a. too many resources are being used for nondefense goods.
    b. only new technology will increase the production of defense or nondefense goods.
    c. too many resources are being used for defense goods.
    d. society is maximizing output from the limited number of resources.
    e. it is possible to increase defense goods production without sacrificing nondefense goods production.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Inefficient Points
BLM: Bloom's: Application | AACSB: Analytic

87. Suppose a financial crisis prevents many companies to get loans so that their production levels fall as they are unable to purchase the same amount of inputs as before. We can conclude that the economy is
    a. operating on the production possibility curve.
    b. operating outside the production possibility curve.
    c. operating inside the production possibility curve.
    d. efficient.
    e. experiencing economic growth.

ANS: C PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Inefficient Points
BLM: Bloom's: Analysis | AACSB: Analytic

88. Inefficient use of a nation's resources would
    a. be depicted as a point inside or below a production possibilities curve.
    b. be depicted as a point on a production possibilities curve.
    c. shift a production possibilities curve outward.
    d. cause the economy's production possibilities curve to bow inward.
    e. be depicted as a point outside or above a production possibilities curve.

ANS: A PTS: 1 DIF: basic OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Inefficient Points
BLM: Bloom's: Knowledge | AACSB: Analytic

89. Given a production possibilities curve for defense goods and nondefense goods, a production point outside the curve
    a. cannot be attained with the current level of resources and technology.
    b. may be attained by shifting resources to defense goods.

c. may be attained by acquiring new technology.
d. may be attained if new resources are discovered.
e. may be attained by acquiring both new technology and greater resources.

ANS: B PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Points outside the Curve
BLM: Bloom's: Analysis | AACSB: Analytic

90. If a new labor-saving technology is discovered,
a. the production possibilities curve remains unchanged.
b. the production possibilities curve shifts inward.
c. there is movement along the production possibilities curve.
d. society does not face a new set of tradeoffs.
e. points that were previously unattainable to society may now be attainable.

ANS: E PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Growth and the Production Possibilities Curve
BLM: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-6

Production Possibilities for Computers and TV Sets

Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

91. Refer to the production possibilities schedule in Exhibit 1-6. A combination of 20 units of computers and 2 television sets
a. requires an infusion of technological know-how.
b. illustrates underemployment of resources.
c. is possible only with full and efficient use of all resources.
d. is unattainable because it requires resources that are not available.
e. cannot be produced with the current supply of resources.

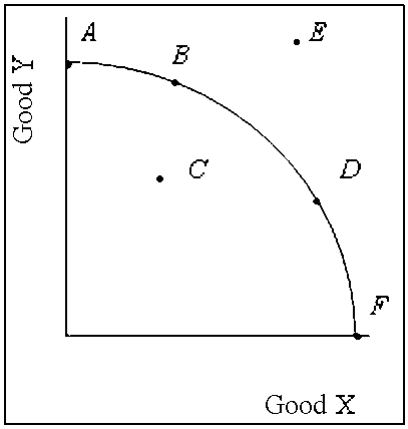
ANS: B PTS: 1 DIF: challenging OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Inefficient Points
BLM: Bloom's: Application | AACSB: Analytic

92. Refer to the production possibilities schedule in Exhibit 1-6. A combination of 40 units of computers and 4 television sets
a. cannot be produced with the current supply of resources.
b. is possible only with full and efficient use of all resources.
c. has never been and never will be produced.
d. illustrates underemployment of resources.
e. will not satisfy the consumers' demands.

ANS: A PTS: 1 DIF: challenging OBJ: conceptual

NAT: Scarcity, tradeoffs, and opportunity cost TOP: Impossible Points
BLM: Bloom's: Application | AACSB: Analytic

Exhibit 1-7



93. Refer to Exhibit 1-7. A movement from Point *B* to Point *D* indicates
    a. a gain in Good X and a loss in Good Y.
    b. a gain in Good Y and a loss in Good X.
    c. a gain in both Good X and Good Y.
    d. a loss in both Good X and Good Y.
    e. no change in the production of Good X or Good Y.

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

94. Refer to Exhibit 1-7. The production possibilities curve indicates that
    a. it is possible to produce more of one good without sacrificing some of the other good only if production occurs at a point inside the production possibilities curve.
    b. Good X is an input in the production of Good Y.
    c. producing an additional unit of Good X requires producing an additional unit of Good Y.
    d. more resources exist than the economy can efficiently use.
    e. the economy is experiencing decreasing opportunity costs.

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

95. Refer to Exhibit 1-7. Assume the economy is operating at Point *C*. This indicates that
    a. the only way the economy could move toward a point such as *D* is by discovering new resources.
    b. the economy is efficiently using all its resources.
    c. there is no excess resource capacity in the economy.
    d. it is possible for the economy to produce more of Good X and Good Y with the given resources.
    e. it is possible for the economy to produce more of Good X only if it produces less of Good Y.

    ANS: D PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

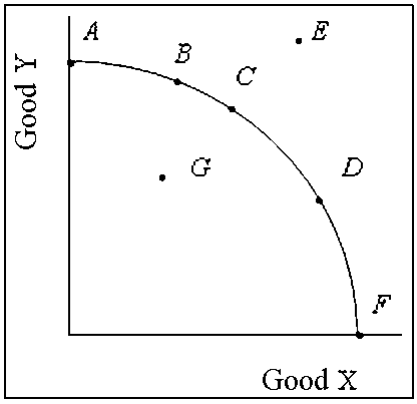
96. Refer to Exhibit 1-7. Point *C*
    a. occurs when resources are not efficiently allocated.
    b. may be attained with a sufficient improvement in technology.
    c. can be obtained with existing resources.
    d. is impossible to attain, even in the future.
    e. shows the most efficient use of valuable resources.

    ANS: A PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

97. Refer to Exhibit 1-7. Point *E*
    a. occurs when resources are not efficiently allocated.
    b. may be attained with a sufficient improvement in technology.
    c. can be attained with existing resources.
    d. is impossible to attain, even in the future.
    e. shows the most efficient use of valuable resources.

    ANS: B PTS: 1 DIF: moderate OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Shifts in Production Possibilities Curve
    BLM: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-8



98. Refer to Exhibit 1-8. The optimal point for the economy is
    a. *D*.
    b. *C*.
    c. *B*.
    d. *E*.
    e. impossible to determine from the given information.

    ANS: E PTS: 1 DIF: challenging OBJ: conceptual
    NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
    TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

99. Refer to Exhibit 1-8. Point *C* is more efficient than Point
    a. *A*.
    b. *B*.
    c. *D*.
    d. *E*.

e. *G*.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

100. If society begins by producing 3 units of X and 4 units of Y and then alters production so that it is now producing 4 units of X and 4 units of Y, and we know that the quantity and quality of resources were unchanged and that technology did not change, then
a. society has moved along the production possibilities curve.
b. the combination of 3 units of X and 4 units of Y are best represented by a point inside the production possibilities curve.
c. the combination of 3 units of X and 4 units of Y are best represented by a point outside the production possibilities curve.
d. resources were being fully utilized at 3 units of X and 4 units of Y.
e. resources were being efficiently utilized at 3 units of X and 4 units of Y.

ANS: B PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

101. A point outside the production possibilities curve
a. represents inefficient use of resources.
b. may be due to unemployment.
c. represents more resources than are currently available.
d. is attainable if all resources are used efficiently.
e. is not attainable regardless of the amount of resources.

ANS: C PTS: 1 DIF: basic OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Knowledge

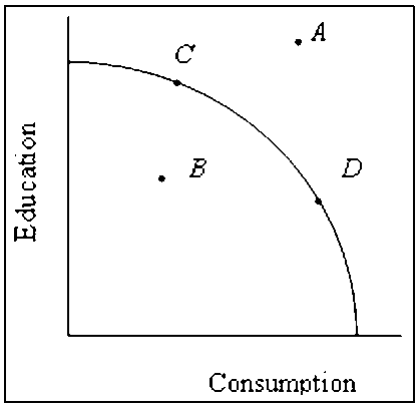
102. Economic growth can be shown by
a. a shift of the production possibilities curve outward.
b. a point inside the production possibilities curve.
c. movement along the production possibilities curve.
d. a shift of the production possibilities curve inward.
e. changing the shape of the production possibilities curve.

ANS: A PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Shifts in Production Possibilities Curve BLM: Bloom's: Knowledge

103. For an economy to attain what is currently impossible is
a. a problem involving choice and scarcity, the choice being between current consumption and investment.
b. an economic problem but is never taken seriously.
c. an economic problem of supply and demand.
d. not an economic problem because one cannot choose something that does not exist.
e. not an economic problem because future production is not a viable alternative to current production.

ANS: A PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Economic Progress
BLM: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-9



104. Refer to Exhibit 1-9. The attainment of Point *A* in the future
   a. is more likely to occur if the economy chooses more education.
   b. can occur, but why it can is not understood.
   c. is impossible.
   d. is more likely to occur if the economy initially moves to Point *B* to conserve resources.
   e. is more likely to occur if the economy chooses more consumption.

   ANS: A PTS: 1 DIF: moderate OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
   TOP: Economic Progress BLM: Bloom's: Analysis | AACSB: Analytic

105. Refer to Exhibit 1-9. Which of the following is more likely to lead to the economy's attainment of Point *A*?
   a. A decrease in education expenditures
   b. Increased consumption
   c. An increase in the working-age population
   d. A depletion of resources
   e. None of these because Point *A* is impossible to attain

   ANS: C PTS: 1 DIF: moderate OBJ: factual
   NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
   TOP: Economic Progress BLM: Bloom's: Analysis | AACSB: Analytic

106. Refer to Exhibit 1-9. Suppose the amount of energy available to the economy declines. Which of the following is the most likely to happen?
   a. A movement from Point *D* to Point *C* along the curve
   b. A movement from Point *C* to Point *D* along the curve
   c. A shift to Point *B*
   d. A shift to Point *A*
   e. A shift from Point *A* to Point *B*

   ANS: C PTS: 1 DIF: moderate OBJ: conceptual
   NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
   TOP: Shifts in Production Possibilities Curve
   BLM: Bloom's: Analysis | AACSB: Analytic

107. Refer to Exhibit 1-9. If the economy depicted is at Point *B*, then
   a. more consumption can be produced, but at the expense of education.
   b. any further increase in education will involve a decrease in consumption.

c. any further increase in consumption will involve a decrease in education.
d. any further increase in either consumption or education will benefit everyone.
e. any further increase in either consumption or education will hurt everyone.

ANS: D PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost | Reading and interpreting graphs
TOP: Economic Progress BLM: Bloom's: Analysis | AACSB: Analytic

108. Refer to Exhibit 1-9. The tradeoff that will enable the economy to reach Point *A* from anywhere along the curve
a. will be either a win-win or lose-lose situation.
b. occurs when everyone can win.
c. cannot occur.
d. occurs when some people win only if others lose.
e. occurs when everyone loses.

ANS: B PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Economic Growth
BLM: Bloom's: Analysis | AACSB: Analytic

109. *T* or *F*. Any point on the production possibilities curve represents the fact that resources are efficiently allocated.

ANS: T PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Knowledge

110. *T* or *F*. Moving from a point on the production possibilities curve to another point on the same curve implies a gain in production efficiency.

ANS: F PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

111. *T* or *F*. The production possibilities curve is immovable, meaning that it is fixed regardless of the availability of resources.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: Productivity and growth TOP: Growth
BLM: Bloom's: Knowledge | AACSB: Analytic

112. *T* or *F*. Economic growth in the future can be encouraged by tradeoffs made today.

ANS: T PTS: 1 DIF: moderate OBJ: conceptual
NAT: Productivity and growth TOP: Growth
BLM: Bloom's: Knowledge | AACSB: Analytic

113. *T* or *F*. The movement from a point inside a production possibilities curve to a point outside the curve is likely to result in no change in an economy's total production.

ANS: F PTS: 1 DIF: moderate OBJ: conceptual
NAT: Productivity and growth TOP: Growth
BLM: Bloom's: Knowledge | AACSB: Analytic

114. What explains the occurrence of increasing opportunity costs?

ANS:
Increasing opportunity costs occur because resources are better suited for one type of production compared to another.

PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Knowledge

115. Does the production possibilities curve represent the economy in which some people win only if others lose? Explain.

ANS:
There are two reasons why the production possibilities curve does not necessarily mean some people win only if others lose. First, if the production possibilities curve shifts outward, then it is possible to produce more of both goods. In addition, if the economy is producing in the inefficient region, then more of both goods can be produced if the economy becomes more efficient.

PTS: 1 DIF: challenging OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Economic Progress
BLM: Bloom's: Evaluation | AACSB: Analytic

116. Is it possible for an economy to make tradeoffs in the present in order to attain what is currently unattainable? Explain.

ANS:
Yes, it is possible for an economy to make tradeoffs today in order to attain what is currently unattainable. If an economy wants to grow, it might want to increase output of machinery and/or education at the expense of current consumption in order to have more resources in the future.

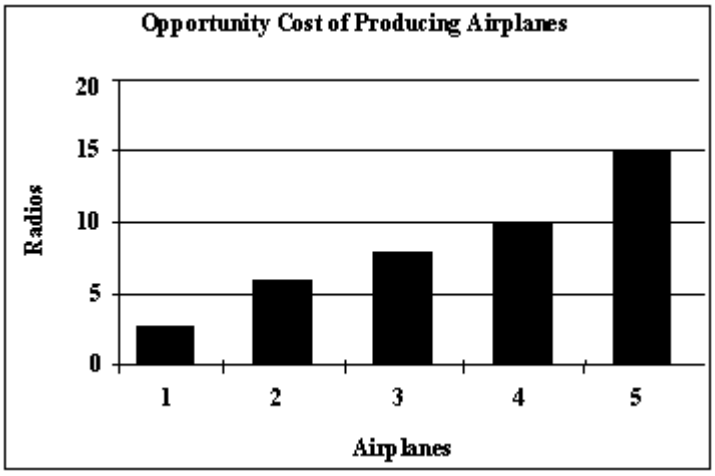
PTS: 1 DIF: moderate OBJ: factual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Economic Progress
BLM: Bloom's: Analysis | AACSB: Analytic

117. Suppose an economy can produce either radios or airplanes. The production possibilities for this economy are shown in the table below. Show that this production possibilities schedule depicts increasing opportunity costs.

Production Possibilities for Radios and Airplanes

Combination	Radios	Airplanes
A	0	5
B	15	4
C	25	3
D	33	2
E	39	1
F	42	0

ANS:
A chart such as the one below shows that for each additional airplane produced, the amount of radios that needs to be given up increases as airplane production increases.



PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Application | AACSB: Analytic

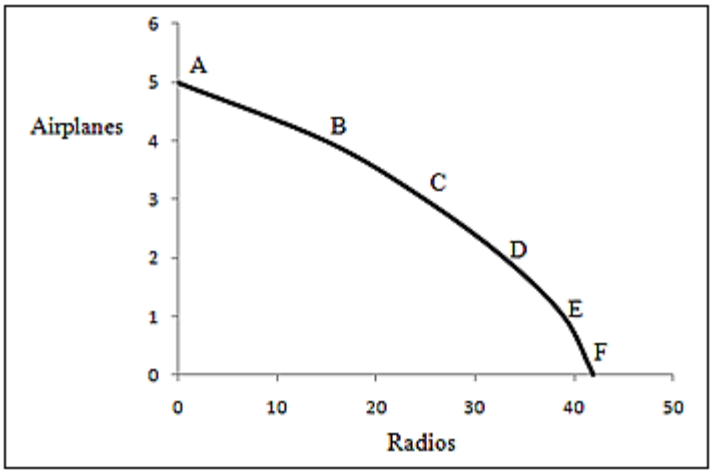
118. Using the information in the table below, draw a production possibilities curve.

Production Possibilities for Radios and Airplanes

Combination	Radios	Airplanes
A	0	5
B	15	4
C	25	3
D	33	2
E	39	1
F	42	0

(A) With this graph, depict the point that would show the combination of 30 radios and 1 airplane.
(B) With this graph, depict the point that would show the combination of 25 radios and 5 airplanes.
(C) With this graph, depict the point that would show the combination of 25 radios and 3 airplanes.

ANS:



A production possibilities curve that is bowed out should be drawn. The answer to part (A) should show a point inside the curve. The answer to part (B) should show a point outside the curve. The answer to part (C) should show a point along the curve.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

119. The three essential questions that every economy must solve are
a. what, how many, and for whom?
b. how, what, and where?
c. what, how, and for whom?
d. what, how much, and for whom?
e. where, how, and for whom?

ANS: C PTS: 1 DIF: basic OBJ: factual
NAT: The study of economics, and definitions in economics TOP: Three Questions
BLM: Bloom's: Knowledge

120. In a pure market economy, the what, how, and for whom problems are determined by
a. consumers only.
b. firms only.
c. the government.
d. both consumers and firms.
e. no one.

ANS: D PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Market Economies
BLM: Bloom's: Knowledge

121. In a command economy, the what, how, and for whom problems are determined by
a. consumers.
b. firms.
c. the government.
d. both consumers and firms.
e. markets.

ANS: C PTS: 1 DIF: basic OBJ: factual
NAT: The role of government TOP: Command Economy
BLM: Bloom's: Knowledge

122. Which of the following statements is *false*?
   a. In a centrally planned economy, decisions concerning the three essential questions are made by those who control the government.
   b. In a market economy, firms do not interact with consumers.
   c. The two alternative approaches to the three essential questions are market economies and command economies.
   d. In a market economy, decisions concerning the three essential questions result from interactions taking place in markets.
   e. In both centrally planned and market economies, the three essential economic questions are what, how, and for whom.

   ANS: B PTS: 1 DIF: moderate OBJ: factual
   NAT: Markets, market failure, and externalities
   TOP: Market vs. Command Economy BLM: Bloom's: Knowledge

123. The key elements of a market economy include all of the following *except*
   a. freely determined prices.
   b. property rights.
   c. freedom to trade at home.
   d. freedom to trade abroad.
   e. strong government intervention.

   ANS: E PTS: 1 DIF: moderate OBJ: factual
   NAT: Markets, market failure, and externalities TOP: Role of Government
   BLM: Bloom's: Knowledge

124. In a market economy, prices are
   a. mainly transfer prices.
   b. mainly government-determined transfer prices.
   c. determined by the government.
   d. freely determined.
   e. determined solely by firms and not by consumers.

   ANS: D PTS: 1 DIF: basic OBJ: factual
   NAT: Markets, market failure, and externalities TOP: Market Price
   BLM: Bloom's: Knowledge

125. When a country like North Korea is characterized as a command economy, it's because most prices are
   a. determined in the market, and they usually lead to market failures.
   b. set by the government, which usually leads to inefficiencies.
   c. determined in the market, and they result in efficient outcomes.
   d. set by the government, and they result in efficient outcomes.
   e. determined in the market, and they usually lead to inefficiencies.

   ANS: B PTS: 1 DIF: moderate OBJ: factual
   NAT: Markets, market failure, and externalities TOP: Price Determination
   BLM: Bloom's: Analysis | AACSB: Analytic

126. Establishing property rights
   a. is a characteristic of most centrally planned economies.
   b. provides incentives.
   c. is not important in a market economy but is an important feature in a centrally planned economy.
   d. is not important in a market economy.

e. is another name for eminent domain.

ANS: B PTS: 1 DIF: basic OBJ: factual
NAT: The role of incentives TOP: Property Rights
BLM: Bloom's: Knowledge

127. Without property rights,
a. people would have more of an incentive to specialize, and the economy would become more efficient.
b. there would be more inventions.
c. people would not have an incentive to specialize.
d. a market economy would become more efficient.
e. people would have more of an incentive to specialize.

ANS: C PTS: 1 DIF: moderate OBJ: conceptual
NAT: The role of incentives TOP: Property Rights
BLM: Bloom's: Knowledge

128. Foreign trade
a. benefits only small countries that cannot produce everything.
b. benefits only large countries that have a comparative advantage in producing everything.
c. can benefit no country.
d. can benefit small or large countries.
e. benefits only small countries that have a comparative disadvantage.

ANS: D PTS: 1 DIF: basic OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Foreign Trade
BLM: Bloom's: Knowledge

129. Market failure
a. caused the collapse of centrally planned economies in Eastern Europe.
b. is the consequence of government involvement in the economy.
c. is something that never happens in a market economy.
d. occurs when the market is unable to allocate resources correctly.
e. occurs only when supply exceeds demand.

ANS: D PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Market Failure
BLM: Bloom's: Knowledge

130. The role of government in a market system
a. includes encouraging market failures.
b. does not exist.
c. is restricted to establishing property rights.
d. includes improving situations that would otherwise result in a government failure.
e. includes improving situations that would otherwise result in a market failure.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: The role of government TOP: Role of Government
BLM: Bloom's: Knowledge

131. A government failure results when
a. the government allows a market failure to occur.
b. the government establishes property rights.
c. the market economy does not provide good answers to the three questions.

d. government intervention is unable to correct a market failure.
e. the government intervenes in a market economy.

ANS: D PTS: 1 DIF: moderate OBJ: factual
NAT: The role of government TOP: Government Failure
BLM: Bloom's: Evaluation

132. Transaction costs are the costs of
a. bribing government officials.
b. buying and selling in a market.
c. doing something within an organization.
d. avoiding any economic interactions.
e. producing a product instead of buying it from someone else.

ANS: B PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Transaction Costs
BLM: Bloom's: Knowledge

133. Economic interaction occurs in firms as opposed to markets
a. because markets are too competitive.
b. because this is what the government wants.
c. in order to lower transaction costs.
d. in order to increase transaction costs.
e. if workers want to increase wages but not product prices.

ANS: C PTS: 1 DIF: moderate OBJ: factual
NAT: Markets, market failure, and externalities TOP: Transaction Costs
BLM: Bloom's: Knowledge

134. *T* or *F*. The degree of competition varies among market economies.

ANS: T PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Competition
BLM: Bloom's: Knowledge

135. *T* or *F*. There is no legitimate role for government in a market economy.

ANS: F PTS: 1 DIF: basic OBJ: factual
NAT: The role of government TOP: Role of Government
BLM: Bloom's: Knowledge

136. *T* or *F*. The government can improve market conditions in case of a market failure.

ANS: T PTS: 1 DIF: basic OBJ: factual
NAT: The role of government TOP: Market Failure
BLM: Bloom's: Knowledge

137. *T* or *F*. Property rights are not necessary for a market economy to function.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: The role of incentives TOP: Property Rights
BLM: Bloom's: Knowledge

138. *T* or *F*. A centrally planned economy is also called a market economy.

ANS: F PTS: 1 DIF: moderate OBJ: factual
NAT: Markets, market failure, and externalities
TOP: Market vs. Command Economy BLM: Bloom's: Knowledge

139. What does a market economy use to determine the what is produced, how, and for whom problems?
a. A price system
b. The government
c. An election
d. A tax system
e. Bribery

ANS: A PTS: 1 DIF: basic OBJ: factual
NAT: Markets, market failure, and externalities TOP: Signals
BLM: Bloom's: Knowledge

140. To say that a change in taste causes prices to rise is to claim that
a. transfer prices are a more accurate gauge of economic activity than market prices.
b. prices are a signal.
c. the economy has full information.
d. prices would not change if people did not know the exact reason for the price change.
e. price changes cannot be predicted.

ANS: B PTS: 1 DIF: moderate OBJ: conceptual
NAT: Markets, market failure, and externalities TOP: Signals
BLM: Bloom's: Analysis | AACSB: Analytic

141. If an increase in the price of lemonade causes more people to sell lemonade, then it can be argued that the price increase
a. acted as a transfer price.
b. caused a redistribution of income.
c. caused a market failure
d. reduced competition.
e. acted as an incentive.

ANS: E PTS: 1 DIF: moderate OBJ: conceptual
NAT: The role of incentives TOP: Incentives
BLM: Bloom's: Application | AACSB: Analytic

142. If an increase in the price of lemonade results in people with lemonade stands having more income, then it can be argued that the price increase
a. acted as an incentive.
b. resulted in a redistribution of income.
c. acted as a transfer price.
d. reduced competition.
e. acted a signal.

ANS: B PTS: 1 DIF: moderate OBJ: conceptual
NAT: Efficiency and equity TOP: Income Distribution
BLM: Bloom's: Application | AACSB: Analytic

143. Which of the following refers to a decline in production and employment that lasts for six months or more?
a. Financial crisis
b. Economic growth
c. Market failure

d. Government failure
e. Recession

ANS: E PTS: 1 DIF: basic OBJ: conceptual
NAT: Measuring the Economy TOP: Recession BLM: Bloom's: Knowledge

144. What role do property rights play in a market economy?

ANS:
Property rights enable people to keep what they earn and not be overly concerned with what they have being taken away by others. This enables people to allocate more time to production as opposed to protecting what they have.

Property rights also provide incentives in the sense that they give people the right to the earnings from their work, as well as making them responsible for whatever losses they may incur in their endeavors.

PTS: 1 DIF: moderate OBJ: factual NAT: The role of incentives
TOP: Property Rights BLM: Bloom's: Knowledge

145. What does a publisher need to take into consideration when deciding whether to set up its own art department or to contract for artwork on its publications?

ANS:
The publisher needs to consider transaction costs. These costs are incurred when trying to find a company to do artwork; they also include the cost associated with reaching an agreement on the price.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Markets, market failure, and externalities TOP: Transaction Costs
BLM: Bloom's: Analysis | AACSB: Analytic

146. Answer the questions below:
(A) What three questions need to be answered to determine the best possible point along an economy's production possibilities curve?
(B) What are the two different approaches to answering part (A), and how do these different approaches answer it?

ANS:
(A) The three questions that need to be answered are: What goods and services are to be produced? How are they to be produced? For whom are they to be produced?
(B) The two different approaches to answering these three questions are a market economy and a command (centrally planned) economy. Answers to these questions in a market economy result from the interaction of firms, consumers, governments, and other organizations in markets. In a command economy, these questions are answered by those who control the government.

PTS: 1 DIF: challenging OBJ: conceptual
NAT: The study of economics, and definitions in economics TOP: Three Questions
BLM: Bloom's: Knowledge | AACSB: Analytic

147. What is the role of government in a market economy?

ANS:

There are three aspects to the government's role in a market economy. The first is to establish property rights. The second concerns addressing market failures. The third pertains to maintaining overall economic stability, such as a stable price level and preventing unemployment from becoming too high.

PTS: 1 DIF: moderate OBJ: conceptual NAT: The role of government
TOP: The Role of Government BLM: Bloom's: Knowledge

148. Sharon has only $30 to spend for her weekend entertainment. She can go to a college football game for $30, or she can go to the movies for $10. Explain the problem of scarcity and choice in this context. What will Sharon consider as she decides whether to go to the football game or the movie?

ANS:
The scarcity represented by the limited budget means that Sharon can either go to one football game or to the movies three times, and therefore a choice between them must be made. Sharon will consider how intense her preferences are to see the football game and compare this to the ticket price. She will compare the additional satisfaction per dollar spent on the football game versus going to the movies.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Analysis | AACSB: Analytic

149. James, a computer genius, who earned $2 million last year while working at a software company, said that he will enroll as an MBA student at Duke University. What is his opportunity cost of earning the graduate MBA degree? How does it compare to your opportunity cost of a year in college?

ANS:
One of the opportunity costs of one more year of college is the yearly earnings one has to give up in order to attend college. Therefore, the opportunity cost for James, who has been earning $2 million a year, is higher than the opportunity cost of anyone earning much less.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Analysis | AACSB: Analytic

150. John is a high school student. He has ranked his three options of what he can do during the Christmas school break in the following order: (1) work in a fast-food restaurant full-time and earn $2,000; (2) work in a department store for the first two weeks of the break and earn $1,000, and spend the rest of the break traveling; and (3) work in his father's shoe factory full-time and earn $1,500. What is the opportunity cost of his choice?

ANS:
John's first choice is to work full-time in a fast-food restaurant. His next best opportunity is working for part of the Christmas break and traveling for the remainder of the break. Therefore, the opportunity cost of his first choice is the $1,000 he would have received from working in a department store as well as the time he could have used for traveling.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost
BLM: Bloom's: Analysis | AACSB: Analytic

151. Suppose you have two hotdog sausages and your friend has two hotdog buns. Explain how you can both gain from trade. Is this gain from trade through better allocation or greater production?

ANS:

You can trade one of your hotdog sausages for one of your friend's hotdog buns. As a result, both you and your friend can gain from the exchange. This gain is through better allocation rather than greater production.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Gains from Trade
BLM: Bloom's: Analysis | AACSB: Analytic

152. Suppose Ashley and Allison can produce the following combinations of pizza and cakes in a day:

Ashley		Allison	
Pizza	Cakes	Pizza	Cakes
0	5	0	10
1	4	1	8
2	3	2	6
3	2	3	4
4	1	4	2
5	0	5	0

(A) If Ashley and Allison are both currently producing 2 pizzas per day, how many cakes are they producing? What is the total production of pizzas and cakes between them?
(B) Is there a possibility for increasing production? Why or why not?
(C) Suppose that Ashley completely specializes in producing pizzas and Allison completely specializes in producing cakes. What will be the total production of pizzas and cakes?

ANS:
(A) Ashley is producing 3 cakes and Allison is producing 6 cakes. Total production will be 4 pizzas and 9 cakes.
(B) Gains from trade are possible because they have different comparative advantages and different relative efficiencies in the production of pizzas and cakes.
(C) Total production will be 5 pizzas and 10 cakes per day.

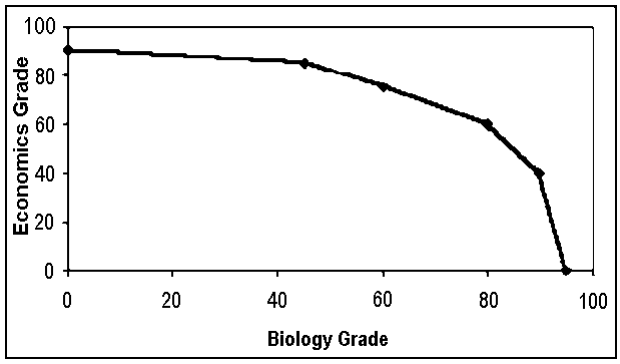
PTS: 1 DIF: moderate OBJ: conceptual
NAT: Gains from trade, specialization and trade TOP: Comparative Advantage
BLM: Bloom's: Application | AACSB: Analytic

153. Suppose you must divide your time between studying for your biology final and writing a final paper for your economics class. The time and the grades in the two classes are as follows:

Fraction of Time Spent on Biology	Biology Grade	Economics Grade
100	95	0
80	90	40
60	80	60
40	60	75
20	45	85
0	0	90

(A) Draw a tradeoff curve for the biology grade versus the economics grade.
(B) What is the opportunity cost of increasing the time spent on biology from 60 to 80 percent? What is the opportunity cost of increasing the time spent on economics from 80 to 100 percent?
(C) Are there increasing opportunity costs from spending more time on biology? Explain.

ANS:
(A) A tradeoff curve for the biology grade versus the economic grade is shown in the following graph.



(B) Twenty points on the biology grade; 45 points on the economics grade.

(C) There are increasing opportunity costs from spending more time on biology because, as more time is spent on biology, an increasing number of economics points must be given up.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost TOP: Tradeoffs
BLM: Bloom's: Application | AACSB: Analytic

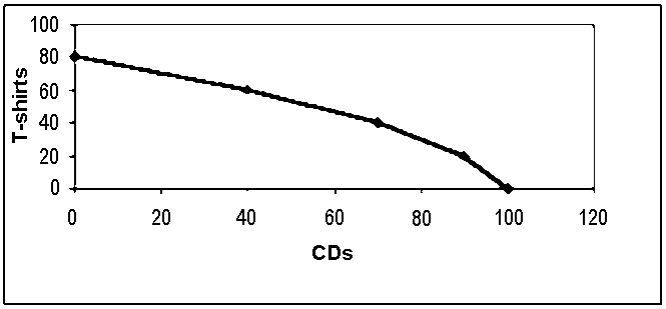
154. A small country produces only two goods, CDs and T-shirts. Given its limited resources, this country has the following production possibilities:

CDs	T-shirts
0	80
40	60
70	40
90	20
100	0

(A) Draw the production possibilities curve.
(B) Suppose this country improves its technology for producing CDs, but technology remains the same for the production of T-shirts. What happens to the production possibility curve? How does this change affect the opportunity cost of increasing T-shirt production?

ANS:

(A)

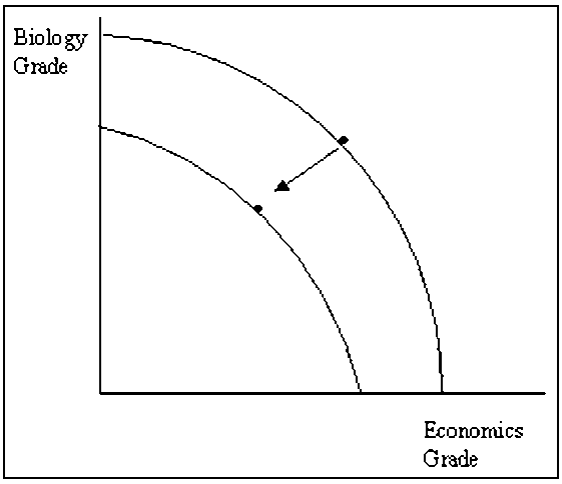


(B) The production possibilities curve shifts out in the direction of CDs, but the total quantity of T-shirts that can be produced remains the same. This change causes the production possibilities curve to be flatter when CD production is on the horizontal axis and therefore decreases the opportunity cost of increasing CD production.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Application | AACSB: Analytic

155. Amy's parents tell her that the grades of the two courses (biology and economics) she takes will decline if she chooses to work a full-time job while going to college. How might this be possible? How would you represent this situation graphically using the production possibilities curve?

ANS:
It is possible for Amy to have a lower grade in both biology and economics if she spends more time working and less time studying both subjects. This can be represented by a shift of the production possibilities curve inward.



PTS: 1 DIF: moderate OBJ: conceptual
NAT: Scarcity, tradeoffs, and opportunity cost
TOP: Production Possibilities Curve BLM: Bloom's: Analysis | AACSB: Analytic

156. Suppose increased production of CD players in Asia causes the price of CD players to decline all over the world. Explain how this change in price signals information to U.S. producers, provides incentives to U.S. producers, and affects the distribution of income.

ANS:

A decrease in the price of CD players signals U.S. producers that CD players are now less scarce. A lower price decreases profits, thereby providing incentives for U.S. producers to produce fewer CD players. It also redistributes income away from U.S. producers and toward consumers.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Markets, market failure, and externalities TOP: Price Signals
BLM: Bloom's: Analysis | AACSB: Analytic

157. Explain how a market economy works to enable the production and allocation of surfboards.

ANS:
Prices in the surfboard market are free to vary, people have property rights to the surfboards they buy, many people sell surfboards, the government does not regulate the use of surfboards, and surfboard production takes place within firms with many workers. A higher price, for instance, will allocate surfboards to the serious surfers and away from the casual surfers.

PTS: 1 DIF: moderate OBJ: conceptual
NAT: Markets, market failure, and externalities TOP: Market Economies
BLM: Bloom's: Analysis | AACSB: Analytic