Principles of Microeconomics 5th Edition Frank Test Bank
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Chapter 02
Comparative Advantage

Multiple Choice Questions

1. To say that an individual possesses an absolute advantage in the production of software means that individual:

   A. has a lower opportunity cost of producing software.
   B. can produce more and/or higher quality software in a given amount of time.
   C. was the first to create the software.
   D. charges the lowest price for software.

2. If Scout has an absolute advantage over Dill:

   A. Scout has more money than Dill.
   B. the problem of scarcity applies to Dill, but not to Scout.
   C. the problem of scarcity applies to Scout, but not to Dill.
   D. Scout can accomplish more in a given period of time than can Dill.

3. If Leslie can produce two pairs of pants in an hour while Eva can make one pair an hour, then it must be the case that:

   A. Leslie has a comparative advantage.
   B. Leslie has an absolute advantage.
   C. Eva has a comparative advantage.
   D. Leslie has both comparative and absolute advantage.

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4. If a nation can produce a good more quickly than any other nation, that nation has a(n):

   A. comparative advantage.
   B. absolute advantage.
   C. relative advantage.
   D. specialization advantage.

5. Having a comparative advantage in a particular task means that:

   A. you are better at it 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 in writing a term paper if he:

   A. can write a paper faster than the other students in class.
   B. has an absolute advantage in writing a term paper.
   C. always earns an A on his papers.
   D. has the lowest opportunity cost for writing a term paper.

7. If a nation has the lowest opportunity cost of producing a good, that nation has a(n):

   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 always 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 hourly, while Bob can produce 2, then one can infer that the _____ advantage belongs to _____.

A. absolute; Jane

B. comparative; Jane

C. comparative; Bob

D. comparative and absolute; Jane

10.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. According to the data, Corey has an absolute advantage in:

A. the production of pizza.

B. neither the production of pizza nor the delivery of pizza.

C. delivering pizza.

D. both the production of pizza and the delivery of pizza.

11.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. According to the data, Pat has an absolute advantage in:

A. the production of pizza.
B. neither the production of pizza nor the delivery of pizza.
C. delivering pizza.
D. both the production of pizza and the delivery of pizza.

12.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Corey's opportunity cost of the production of an extra pizza is the delivery of _____ pizza(s).

A. 2
B. 3/2
C. 2/3
D. 1/2

13.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Corey's opportunity cost of the delivery of an extra pizza is the production of _____ pizza(s).

A. 6
B. 12
C. 2
D. 1/2

14.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Pat's opportunity cost of the production of an extra pizza is the delivery of _____ pizza(s).

A. 3

B. 2

C. 3/2

D. 2/3

15.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Pat's opportunity cost of the delivery of an extra pizza is the production of _____ pizza(s).

A. 12

B. 10

C. 3/2

D. 2/3

16.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. The comparative advantage for pizza production belongs to _____ and the comparative advantage for pizza delivery belongs to _____.

A. Corey; Corey

B. Pat; Pat

C. Pat; Corey

D. Corey; Pat

17.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Based on their comparative advantages, Pat should specialize in _____ while Corey should specialize in _____.

A. pizza delivery; pizza production
B. pizza production; pizza delivery
C. neither pizza production nor pizza delivery; both pizza production and pizza delivery
D. both pizza production and pizza delivery; neither pizza production nor pizza delivery

18. 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. Lou has a comparative advantage over Alex in cooking.

19. Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. Suppose that in one hour Lou and Alex can do the following:

	Alex	Lou
Whole Hour Cleaning	3 rooms	5 rooms
Whole Hour Cooking	3 meals	4 meals
½ hour, Each Activity	1.5 rooms; 1.5 meals	2.5 rooms; 2 meals

Alex and Lou have worked out an efficient arrangement. Under that arrangement:

A. Alex and Lou do half of the cooking and half of the cleaning.
B. Alex does all of the cleaning, while Lou does all the cooking.
C. Lou does all of the cleaning and half of the cooking.
D. Lou does all of the cleaning, while Alex does all of the cooking.

20. Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. Suppose that in one hour Lou and Alex can do the following:

	Alex	Lou
Whole Hour Cleaning	3 rooms	5 rooms
Whole Hour Cooking	3 meals	4 meals
½ hour, Each Activity	1.5 rooms; 1.5 meals	2.5 rooms; 2 meals

For Alex, the opportunity cost of cleaning one room is ____ meal(s); for Lou the opportunity cost of cleaning one room is _____ meal(s).

A. 4; 4

B. 1; 4/5

C. 1; 5/4

D. 3; 5

21. 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

_____ 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

22. 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

For Larry, the opportunity cost of selling a truck is:

A. 10 fewer cars sold.

B. 1/2 car not sold.

C. 1 fewer car sold.

D. 2 fewer cars sold.

23. 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

For Joe, the opportunity cost of selling a truck is:

A. 9 fewer cars sold.

B. 1 fewer cars sold.

C. 4 fewer cars sold.

D. 1/3 car not sold.

24. 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

For Ralph, the opportunity cost of selling a truck is:

A. 9 fewer cars sold.
B. 1/3 car not sold.
C. 3 fewer cars sold.
D. 1/4 car not sold.

25. 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

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

26. 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

_____ should specialize in truck sales, and _____ should specialize in car sales.

A. Joe; Ralph
B. Ralph; Larry
C. Larry; Ralph
D. Larry; Joe

27. Application of the Principle of Comparative Advantage leads to:

A. greater specialization of labor and other factors of production.
B. less specialization of labor and other factors of production.
C. societies without any specialization of labor.
D. lower total output.

28. 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.

29. Ginger and Maryann are lost in the jungle, where the only things to eat are mangoes and fish. Ginger can gather mangoes faster than Maryann and can also catch more fish per hour than can Maryann. Therefore:

    A. Ginger should specialize in fishing because it is harder than gathering mangoes, and Maryann should specialize in gathering mangoes.
    B. Ginger should strike out on her own, because Maryann reduces their combined productivity.
    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.

30. 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.

31. 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

32. A country may 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 the natural resources needed to produce steel.

33. The United States generally has a comparative advantage in the development of technology because of:

A. larger amounts of natural resources.
B. a high concentration of the best research universities.
C. tax incentives.
D. the existence of patent law, which no other country provides.

34. The United States has a comparative advantage in producing books and movies because:

A. New York and Hollywood are the historic centers of book publishing and movie production.
B. wages for workers who print books and make movies are lower in the United States than elsewhere.
C. the English language is understood by many people all over the world.
D. the United States gives generous tax breaks to publishers and movie producers.

35. 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 United States engineers to keep up.
D. automated production allowed production to be outsourced to countries with less-skilled workers.

36. 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(n):

A. production possibilities curve.
B. consumption possibilities curve.
C. production function.
D. supply curve.

37. The production possibilities curve shows:

A. the minimum production of one good for every possible production level of the other good.
B. how increasing the inputs used for one good increases the production of the other good.
C. the maximum production of one good 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.

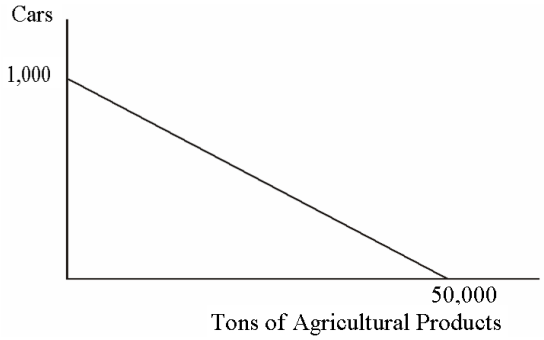
38. The production possibilities curve is:

A. the boundary that divides all production combinations into efficient and inefficient ones.
B. a graph illustrating the production combinations society would like to choose.
C. the boundary that divides all production combinations into attainable ones and unattainable ones.
D. a graph illustrating supply curves for different combinations of output.

39. The core principle that is illustrated by the production possibilities curve is:

A. the Scarcity Principle.
B. the Cost-Benefit Principle.
C. the Incentive Principle.
D. The Principle of Comparative Advantage.

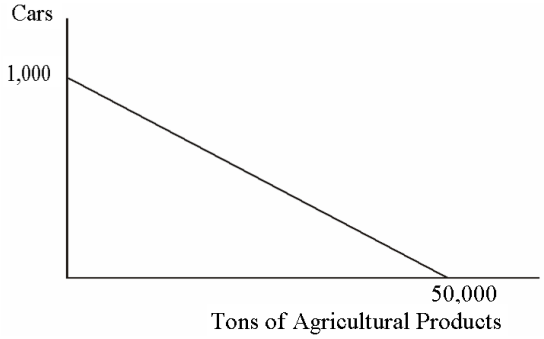
40. This graph describes the production possibilities on the island of Genovia:



The opportunity cost of producing one 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.

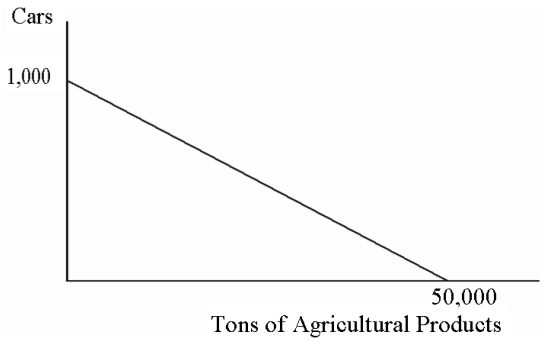
41. This graph describes the production possibilities on the island of Genovia:



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.

42. This graph describes the production possibilities on the island of Genovia:



Assuming efficient production, If 500 cars are produced in Genovia:

A. 50,000 tons of agricultural products are also being produced.
B. 25,000 tons of agricultural products are also being produced.
C. 45,000 tons of agricultural products are also being produced.
D. 40,000 tons of agricultural products are also being produced.

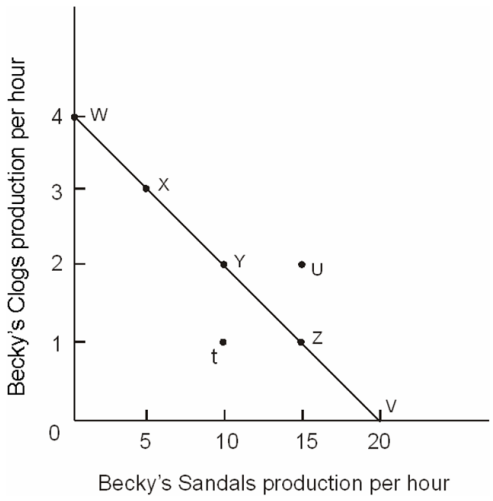
43. The slope of the production possibilities curve must be:

A. positive.
B. decreasing.
C. increasing.
D. negative.

44. The slope of any production possibilities curve is _____ because _____.

A. negative; more production of one good means less production of the other
B. constant; the tradeoff in production never changes
C. positive; more production of one good means more production of the other
D. positive; more production of one good means less production of the other

45.



Refer to the figure above. Becky's maximum production of clogs per hour is represented by point:

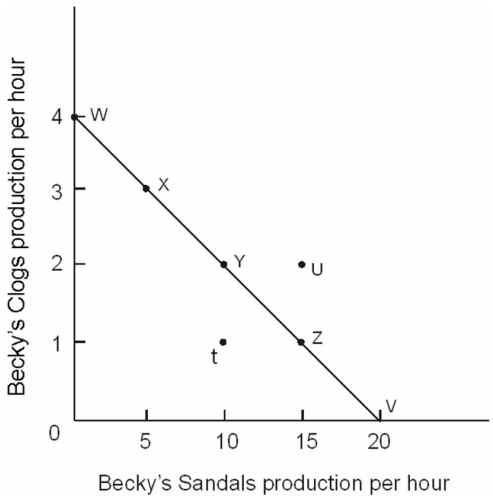
A. *u*.

B. *t*.

C. *v*.

D. *w*.

46.



Refer to the figure above. Becky's maximum production of sandals per hour is represented by point:

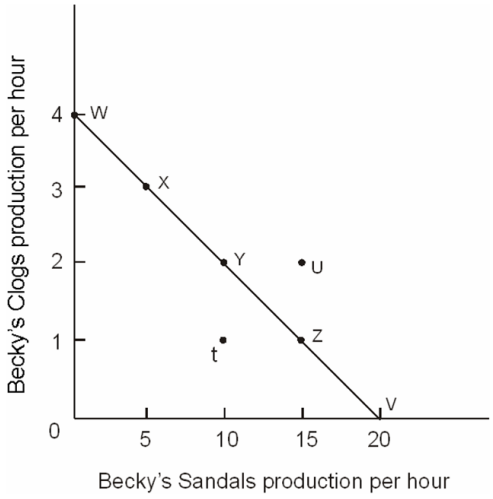
A. *u*.

B. *t*.

C. *v*.

D. *z*.

47.



Refer to the figure above. Point *u* is an _____ point in relation to the production possibilities curve.

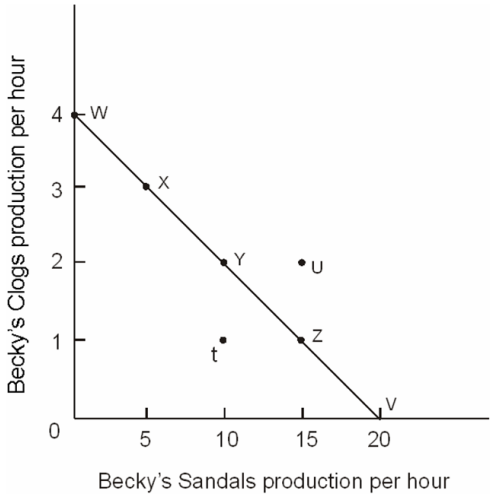
A. attainable

B. efficient

C. unattainable

D. inefficient

48.



Refer to the figure above. Of the labeled points, _____ are attainable.

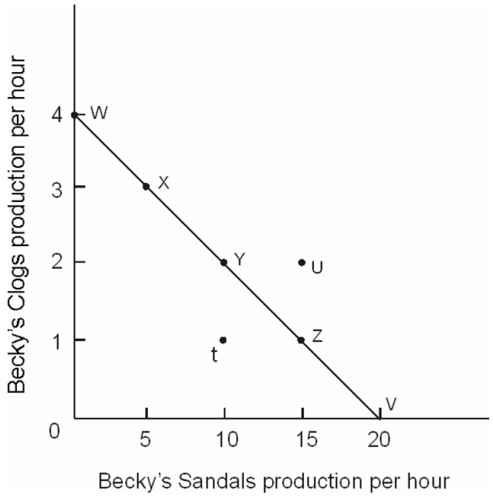
A. only *t* and *u*

B. only *x*, *y*, and *z*

C. only *w*, *x*, *y*, *z*, and *v*

D. only *w*, *x*, *y*, *z*, *v*, and *t*

49.



Refer to the figure above. Of the labeled points, _____ are efficient.

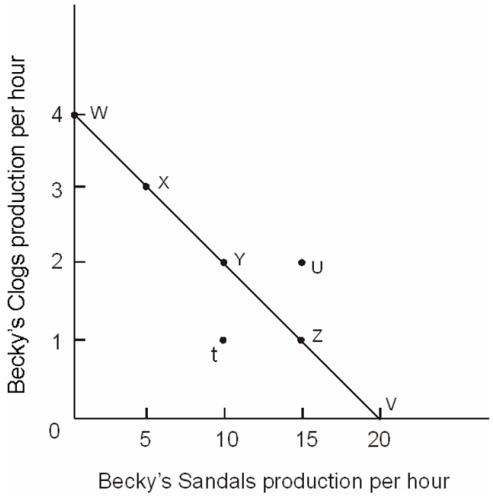
A. only *t* and *u*

B. only *x*, *y*, and *z*

C. only *w*, *x*, *y*, *z*, and *v*

D. only *w*, *x*, *y*, *z*, *v*, and *t*

50.



Refer to the figure above. Point *t* is an _____ point in relation to the production possibilities curve.

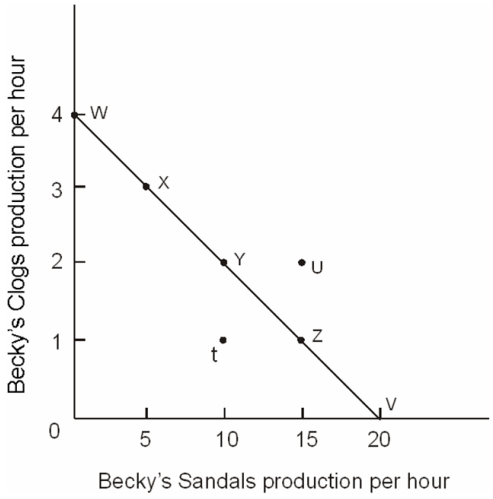
A. attainable

B. efficient

C. unattainable

D. inefficient

51.



Refer to the figure above. Point *y* _____ point *v*.

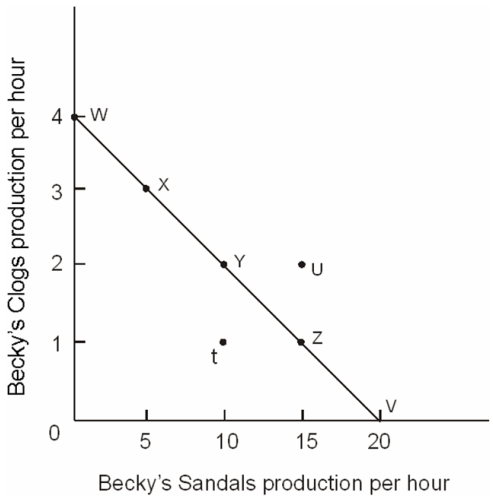
A. is more efficient than

B. is less efficient than

C. is equally as efficient as

D. is more attainable than

52.



Refer to the figure above. Relative to point *x*, at point *y*.

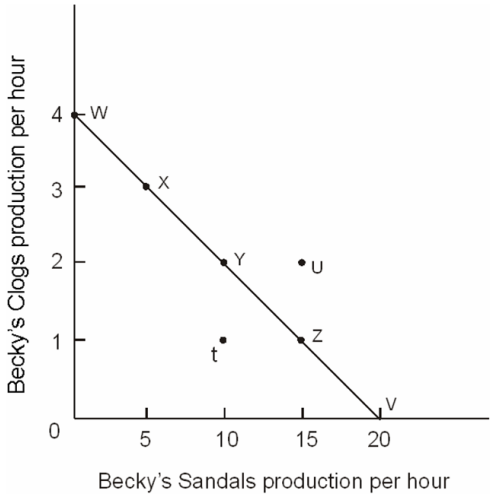
A. more sandals and more clogs are produced.

B. more sandals and fewer clogs are produced.

C. more clogs and fewer sandals are produced.

D. fewer sandals and fewer clogs are produced.

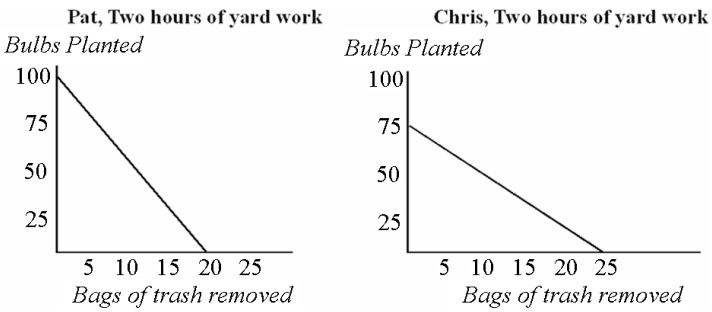
53.



Refer to the figure above. Suppose that during the summer Becky can sell more sandals than she can clogs. If she had been producing at point *x* in the winter, during the summer she will produce at:

A. point *w*.
B. point *z*.
C. point *u*.
D. point *t*.

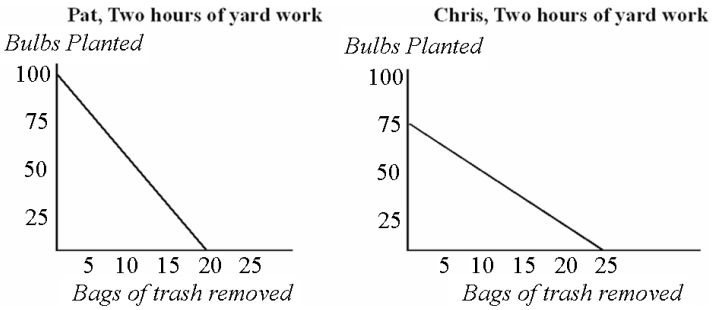
54.



Refer to the figure above. For Pat, the opportunity cost of removing one bag of trash is:

A. not planting 25 bulbs.
B. not planting 5 bulbs.
C. not planting 10 bulbs.
D. not planting one-fifth of a bulb.

55.



Refer to the figure above. For Chris, the opportunity to removing one bag of trash is:

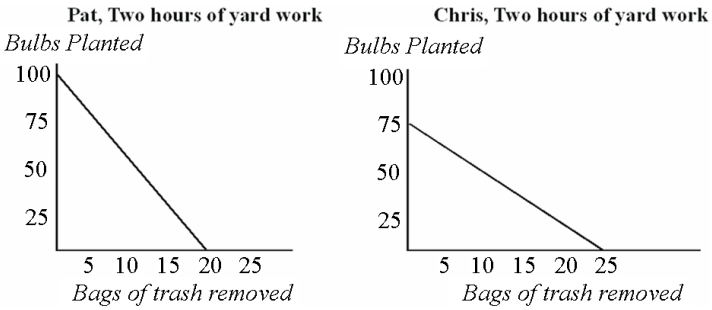
A. not planting 25 bulbs.

B. not planting 5 bulbs.

C. not planting 3 bulbs.

D. not planting one-third of a bulb.

56.



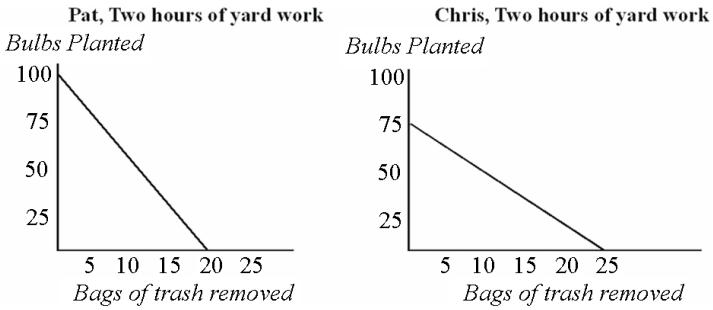
Refer to the figure above. If Pat and Chris were to specialize in the task for which each has a comparative advantage:

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 one hour on each task.

D. both Pat and Chris would plant bulbs because they both have an absolute advantage in that task.

57. 

Refer to the figure above. If Pat and Chris each spend half their time on each task the outcome will consist of:

A. the greatest possible combined production.
B. greater combined production than if each had specialized.
C. less combined production than if each had specialized.
D. an unattainable level of combined production.

58. If a point on a production possibilities curve is attainable:

A. it must be efficient.
B. it might or might not be efficient.
C. it is efficient only if it does not exhaust all currently available resources.
D. it must completely exhaust all currently available resources.

59. Any combination of goods that can be produced with currently available resources defines a(n):

A. attainable point on a production possibilities curve.
B. efficient point on a production possibilities curve.
C. inefficient point on a production possibilities curve.
D. attainable and efficient point on a production possibilities curve.

60. An inefficient point on a production possibilities curve is:

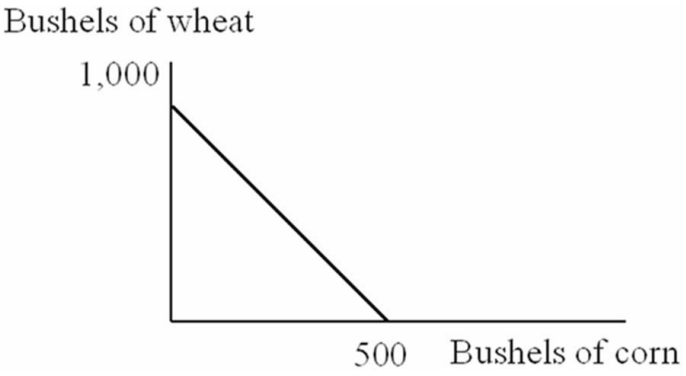
A. necessarily also an attainable point.
B. not necessarily an attainable point.
C. necessarily an unattainable point.
D. possibly an unattainable point.

61. If a producer is operating at an inefficient point on a production possibilities curve using currently available resources, 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.

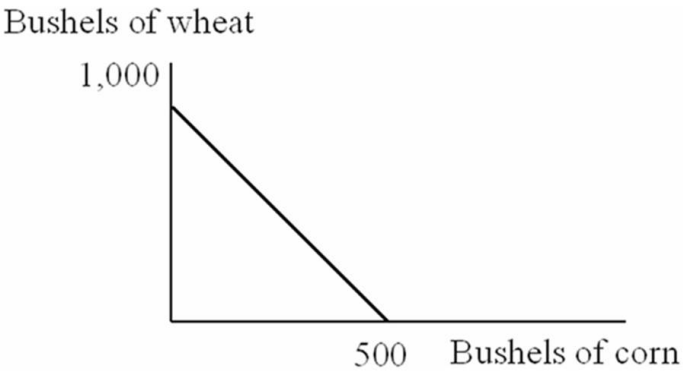
62. Points that lie below the production possibilities curve are inefficient because:

A. more of one or both goods could be produced using currently available resources without giving up production of another good.
B. producers are not specializing.
C. producers face scarcity.
D. too many goods are being produced.

63. 

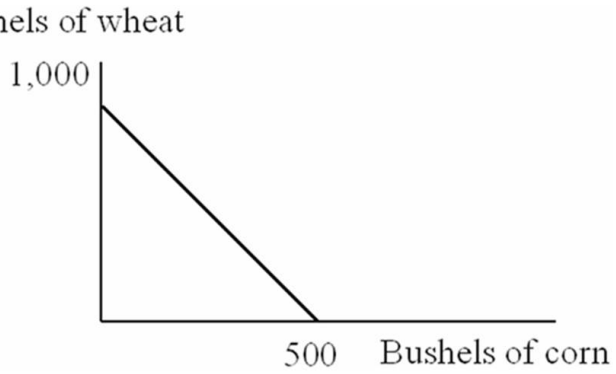
Refer to the figure above. It is _____ for this farmer to grow 1,000 bushels of wheat and no corn relative to growing 500 bushels of corn and no wheat.

A. not efficient
B. more efficient
C. less efficient
D. equally as efficient

64. 

Refer to the figure above. 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 1000 bushels of wheat and 500 bushels of corn.

65. 

Refer to the figure above. The opportunity cost to produce 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.

66. If a given production combination is known to be attainable, then it must be:

A. on the production possibilities curve.
B. an inefficient point.
C. an efficient point.
D. either an inefficient or efficient point.

67. If a given production combination is efficient, then it must be:

A. beyond the production possibilities curve.
B. on the production possibilities curve.
C. either an attainable or an unattainable point.
D. the best combination out of all possible combinations.

68. 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.

69. Point A on a linear production possibilities curve represents a 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

70. Point A on a linear production possibilities curve represents a 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

71. 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 slope of the production possibilities line.
D. the negative of the opportunity cost of the good measured on the horizontal axis.

72. If your linear, two-good production possibilities graph has a slope steeper than -1:

A. you would have to give up more than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
B. you would have to give up less than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
C. by specializing in the good measured on the horizontal axis you would be able to make more total units than you would if you specialized in the good measured on the vertical axis.
D. you have a comparative advantage in the good measured on the vertical axis.

73. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Refer to the information above. The intercept on the *test score* axis of Pat's PPC is:

A. 100
B. 92
C. 5 hours
D. 4 hours

74. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

    Refer to the information above. Pat's PPC for *test score* versus *hours playing a new video game* is:

    A. upward-sloping.
    B. downward-sloping.
    C. first upward- and then downward-sloping.
    D. first downward- and then upward-sloping.

75. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

    Refer to the information above. The opportunity cost of the 2^{nd} hour of playing the video game is:

    A. 10 points on the test.
    B. 5 points on the test.
    C. 7 points on the test.
    D. 2.5 points on the test.

76. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

    Refer to the information above. The opportunity cost of playing video games:

    A. decreases the longer Pat plays.
    B. increases the longer Pat plays.
    C. is greater than the value of earning a higher grade on the test.
    D. is equal to the value of earning a higher grade on the test.

77. The fundamental reason the production possibilities curve has a downward slope is:

    A. workers are inefficient.
    B. resources are of low quality.
    C. resources are fixed and therefore tradeoffs must be made.
    D. it has empirical support but why it is so is still a mystery.

78. In a two-person, two-good economy, the benefits of labor 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 in the respective opportunity costs of the two individuals for both goods.
    D. there are large differences in the respective opportunity costs of the two individuals for both goods.

79. According to the principle of increasing opportunity cost, expanding production requires using resources in which order?

A. In random order.
B. Starting with the resource with the highest opportunity cost and progressing to the lower opportunity cost resources.
C. Starting with the resource closest to the average opportunity cost, then progressing to higher opportunity cost resources.
D. Starting with the resource with the lowest opportunity cost and proceeding to the higher opportunity cost resources.

80. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. The opportunity cost of making an extra calculator for Smith is _____ and for Jones it is _____.

A. 0.10 computers; 0.05 computers
B. 10 computers; 6 computers
C. 1 computer; 0.5 computers
D. 0.6 computers; 1.2 computers

81. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. By coordinating their production decisions, the maximum number of computers Smith and Jones can produce in an hour is:

A. 120.

B. 6.

C. 16.

D. 10.

82. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. 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, then Smith will spend _____ and Jones will spend _____.

A. 1 hour on computers; 40 minutes on computers and 20 minutes on calculators

B. 1 hour on computers; 20 minutes on computers and 40 minutes on calculators

C. 30 minutes on each; 30 minutes on each

D. 45 minutes on computers and 15 on calculators; 1 hour on calculators

83. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. 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, then Smith will spend _____ and Jones will spend _____.

A. 30 minutes on each; 30 minutes on each
B. 48 minutes on computers and 12 minutes on calculators; 1 hour on calculators
C. 1 hour on calculators; 10 minutes on computers and 50 minutes on calculators
D. 12 minutes on computers and 48 minutes on calculators; 1 hour on calculators

84. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. If Smith and Jones are dividing their time efficiently and producing more than 10 computers and fewer than 120 calculators per hour, 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

85. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. If Smith and Jones are dividing their time efficiently and producing fewer than 10 computers and more than 120 calculators per hour, Smith will _____ and Jones will _____.

A. split his time between the two; produce only calculators
B. split his time between the two; split his time between the two
C. produce only calculators; produce only computers
D. produce only computers; produce only calculators

86. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. Suppose Smith and Jones begin by producing 100 calculators per hour; as Smith and Jones choose to efficiently produce fewer computers and more calculators, _____ devotes 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

87. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The daily opportunity cost of moving one miner from Mother Lode to Scraping Bottom is:

A. 2 tons.

B. 3 tons.

C. 4 tons.

D. 1 ton.

88. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The daily opportunity cost of moving one miner from Scraping Bottom to Middle Drift is:

A. less than 0.

B. 3 tons.

C. 4 tons.

D. 5 tons.

89. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The opportunity cost of moving one miner from Middle Drift to Mother Lode is:

A. 1 ton.

B. 3 tons.

C. 4 tons.

D. 5 tons.

90. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. Earth Movers & Shakers has just received an order for 60 tons of ore, to be filled in a single day. 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.

91. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. Earth Movers & Shakers needs to fill an order for 100 tons of ore in a single day, and has no other orders to fill that day. It should:

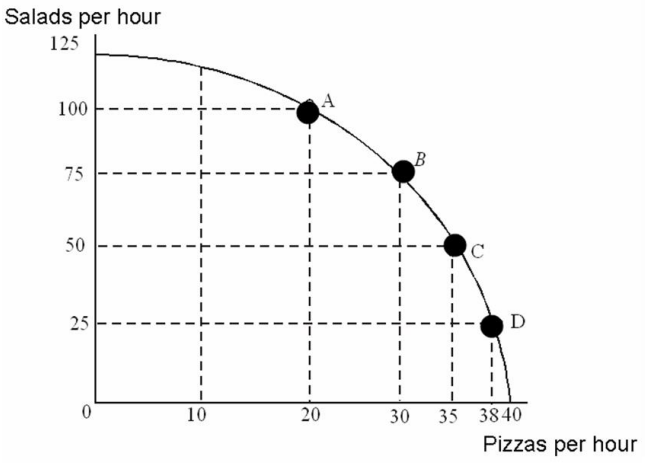
A. take it all from Mother Lode.
B. take 75 tons from Middle Drift and 25 tons from Mother Lode.
C. take 75 tons from Middle Drift and 25 tons from Scraping Bottom.
D. take 30 tons from Scraping Bottom and 70 tons from Mother Lode.

92. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

By taking the first tons from _____, Earth Movers & Shakers is producing consistent with the _____ Principle.

A. Mother Lode; Low Hanging Fruit
B. Middle Drift; Compromise
C. Middle Drift; Low Hanging Fruit
D. Scraping Bottom; Cost Minimizing

93. 

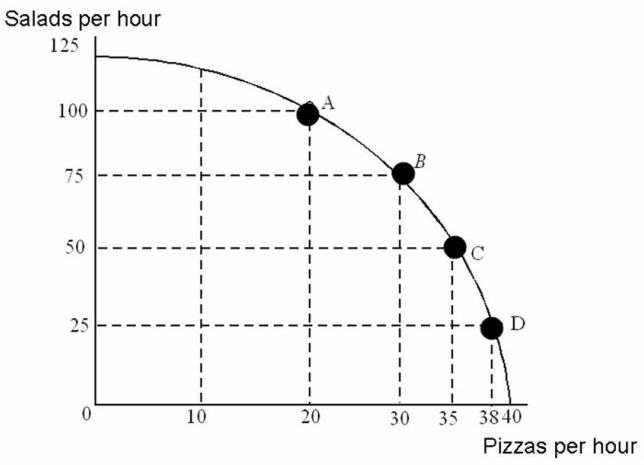
Refer to the figure above. If this restaurant makes 75 salads in one hour, how many pizzas can it also make in that same hour, assuming efficient production?

A. 0

B. 10

C. 20

D. 30

94. 

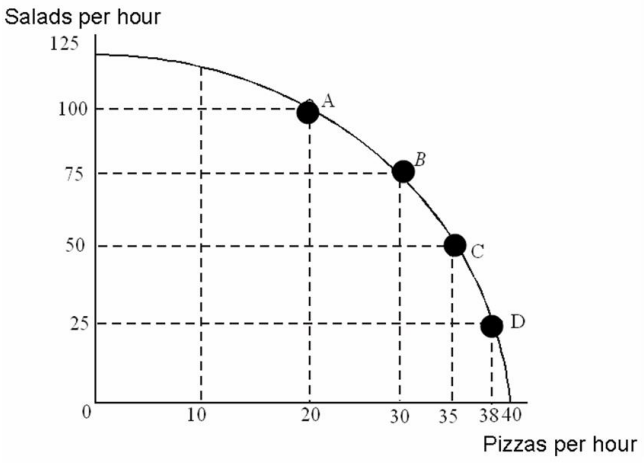
Refer to the figure above. Moving from Point B to Point C, this restaurant would be:

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.

95. 

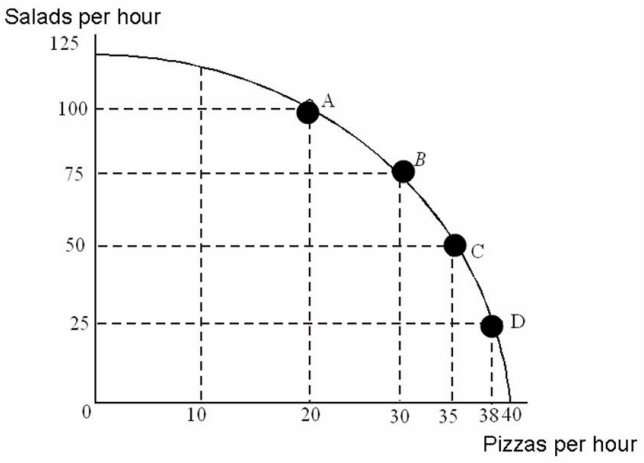
Refer to the figure above. Moving from Point C to Point B, the opportunity cost of 25 more salads is:

A. 5 fewer pizzas.

B. 10 fewer pizzas.

C. 15 fewer pizzas.

D. 30 fewer pizzas.

96. 

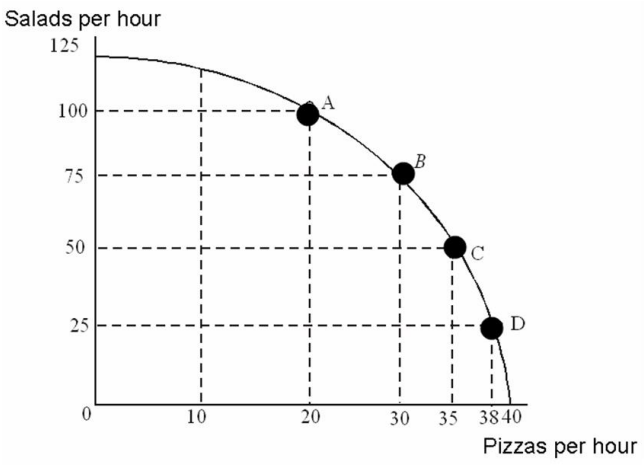
Refer to the figure above. Moving from Point B to Point A, the opportunity cost of 25 more salads is:

A. 5 fewer pizzas.

B. 10 fewer pizzas.

C. 15 fewer pizzas.

D. 20 fewer pizzas.

97. 

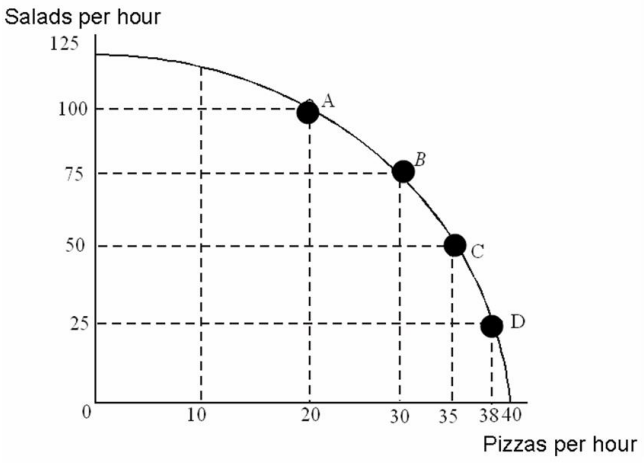
Refer to the figure above. The opportunity cost of making an additional salad:

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.

98. 

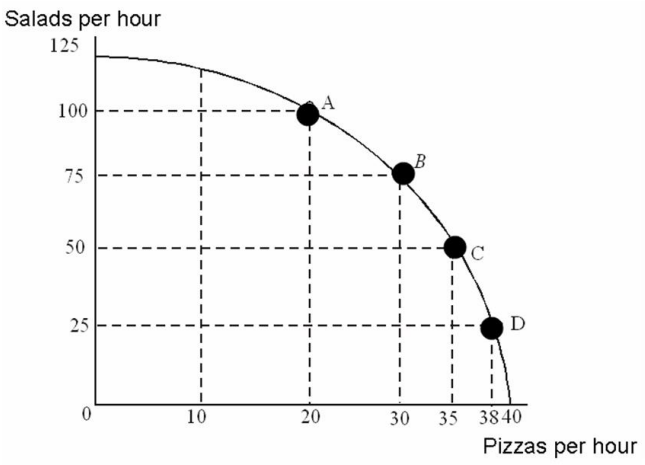
Refer to the figure above. Compare the degree of efficiency at each point. Which is true?

A. Point A is less efficient than Point B.

B. Points A, B, and C are more efficient than Point D.

C. Points B and C are more efficient than either Point A or Point D.

D. Points A, B, C and D are equally efficient.

99. 

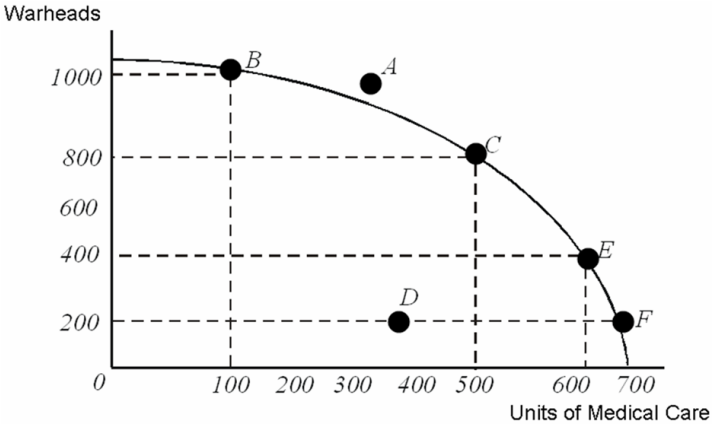
The PPC shown in this graph is characteristic of production that displays:

A. constant opportunity costs.

B. decreasing opportunity costs as production of a good increases.

C. increasing opportunity costs as production of a good increases.

D. inefficient production because it is downward sloping.

100. 

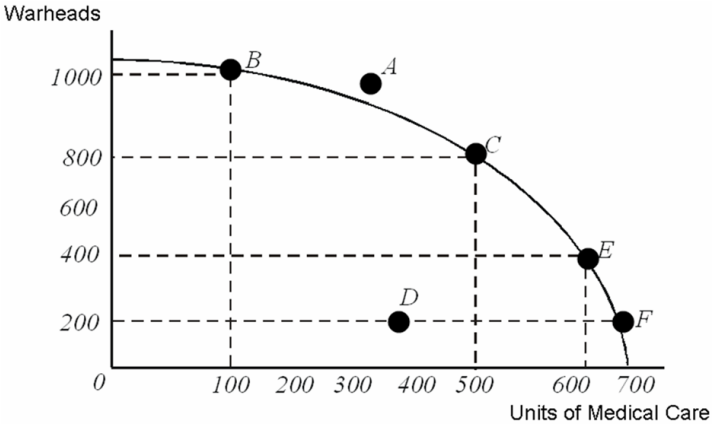
Refer to the figure above. Which of the following is true given the production possibilities shown?

A. Point C is more efficient than Point B because at Point C the opportunity cost of another warhead is lower than at Point B.

B. Point B is the most efficient feasible point because it represents specialization in warheads.

C. Point F is the most efficient feasible point because it represents specialization in medical care.

D. Points B, C, and E are equally efficient.

101. 

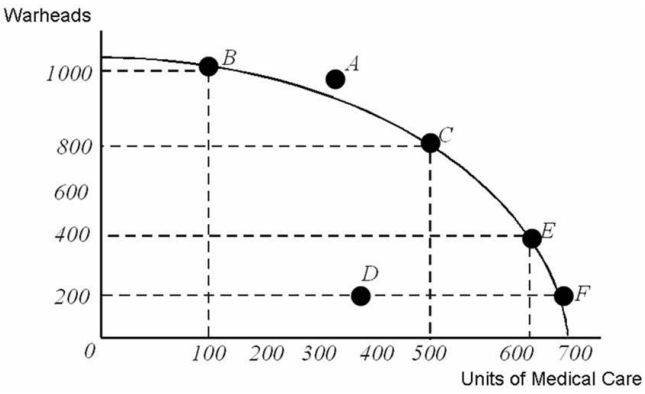
Refer to the figure above. Suppose that the government requires that resources are used efficiently. Which of the following would the government definitely not allow?

A. Specialization in warhead production.

B. Specialization in medical care production.

C. Production at a point other than C.

D. Production at Point D.

102. 

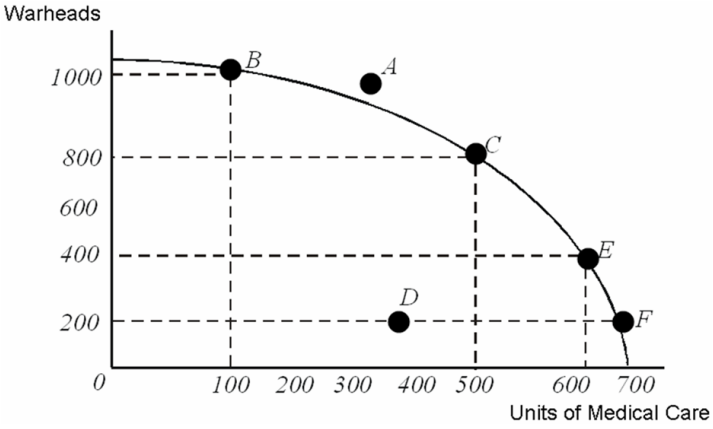
Refer to the figure above. Suppose that this economy is currently producing at point B, but an aging population is demanding more medical care. Providing 400 additional units of medical care will cost this economy:

A. 800 warheads.

B. 400 warheads.

C. 200 warheads.

D. 600 warheads.

103. 

Refer to the figure above. Increasing the quantity of medical care provided from 100 units to 300 units costs _____ increasing the quantity of medical care provided from 400 units to 600 units.

A. more than
B. less than
C. exactly the same as
D. twice as much as

104. Production possibilities curves for large economies generally have an outward bow shape 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 the same good, those resources become less and less expensive.

105. The Principle of Increasing Opportunity Costs implies that:

A. productive people do the hardest tasks first, while they are fresh.
B. to increase production, you should use the resources with the lowest opportunity cost first.
C. the cost-benefit principle does not apply to increasing productivity.
D. specialization increases productivity.

106. You have noticed that your next-door neighbor, Mary, always works in the garden and her husband, Joe, always walks the dog. Based on this observation, you conclude that:

A. Mary has an absolute advantage in gardening.
B. Joe has a comparative advantage in walking the dog.
C. Mary does not understand the principle of low-hanging fruit.
D. Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.

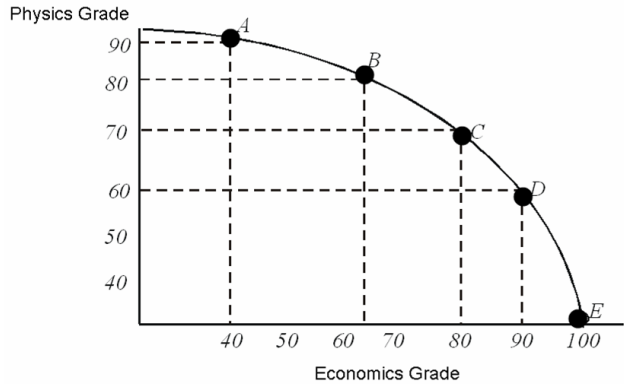
107. The principle of comparative advantage states that specialization increases productivity, but the principle of increasing opportunity costs states that, when you increase production of a single good, you must use increasingly costly resources. These two principles:

A. are evidence that economic theory is internally inconsistent.
B. are an example of the difference between abstract models and the real world.
C. cannot be true at the same time.
D. together account for the outward bow shape of production possibility curves.

108. 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. trade can make both parties to the trade better off.
D. big companies take advantage of smaller ones.

109. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. Both of Moe's professors require at least a 65 to pass and a 90 to earn an A. After looking at his PPC, Moe realizes that:

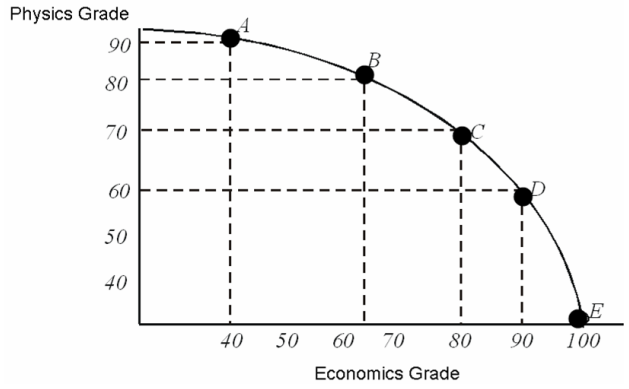
A. he can pass both classes.

B. he can pass economics, but only if he fails physics.

C. he can pass physics, but only if he fails economics.

D. he could earn an A in economics and still pass physics.

110. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. Moe's PPC is bowed out because:

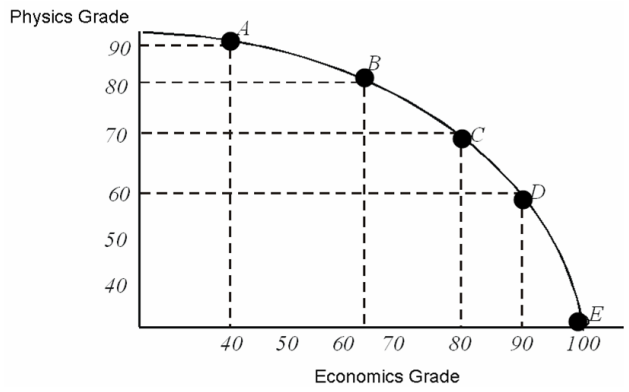
A. he is better at physics than at economics.

B. his studying is subject to the principle of increasing opportunity costs.

C. he is better at economics than at physics.

D. he has failed to take advantage of his comparative advantage.

111. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. According to Moe's PPF, moving from a grade of 80 in economics to a grade of 90 in economics:

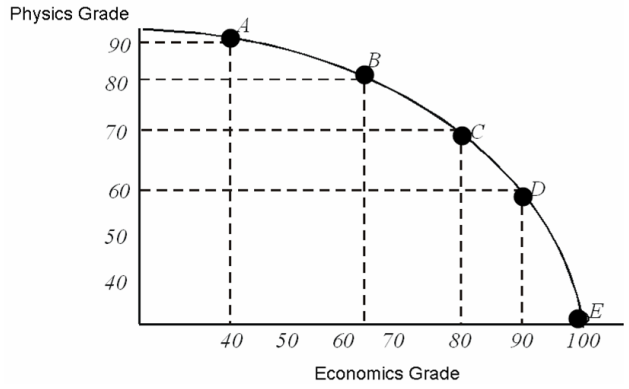
A. is inefficient.

B. comes at a lower opportunity cost than moving from a 90 to a 100 in economics.

C. is not feasible.

D. comes at a higher opportunity cost than moving from a 90 to a 100 in economics.

112. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. If Moe moved from Point A to Point C, his grade in Physics would go down by _____ his grade in economics.

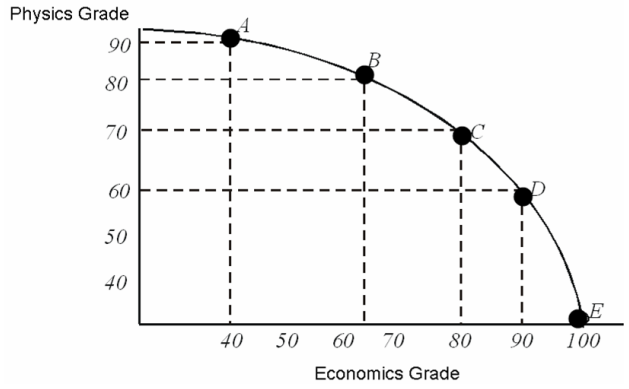
A. less than the increase in

B. more than the increase in

C. more than the decrease in

D. less than the decrease in

113. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. Which of the following is evidence that the low-hanging fruit principle applies to Moe's study habits?

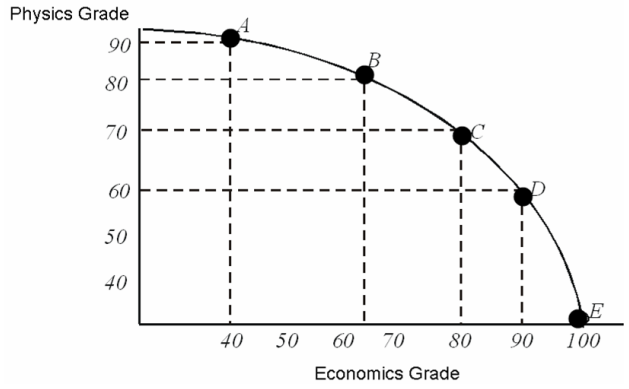
A. Earning the first 65 points in economics has a lower opportunity cost than earning the ten points that moves his score from 90 to 100 in economics.

B. Physics is easier to grasp than economics, so it is the "low-hanging fruit" for Moe.

C. Economics is easier to grasp than physics, so it is the "low-hanging fruit" for Moe.

D. The low-hanging fruit principle applies only to production of goods and services, not to grades.

114. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



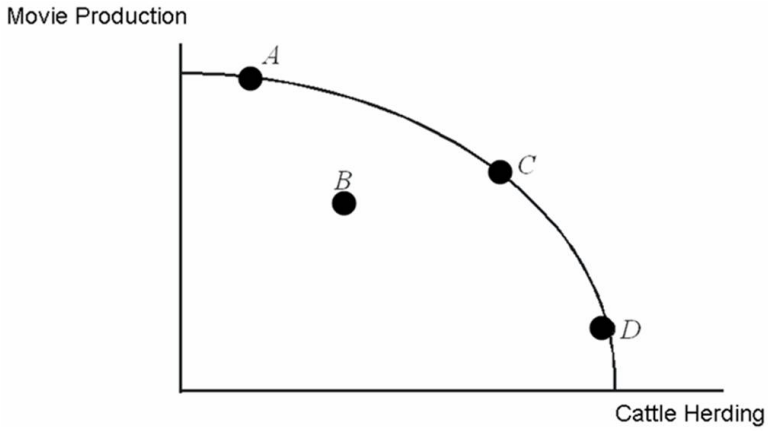
Moe needs to earn at least an 80 in both economics and physics to keep his scholarship. Given his current PPC, an 80 in both classes is _____.

A. infeasible

B. attainable, but only if Moe is efficient

C. efficient

D. attainable, but inefficient

115. 

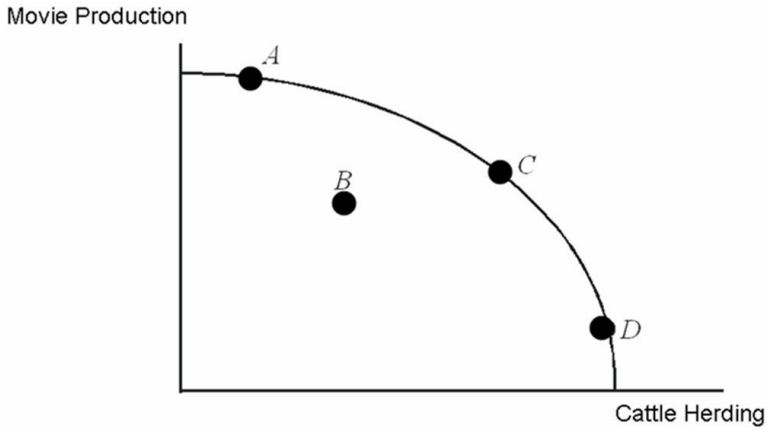
Refer to the figure above. In the country whose PPC is shown, it must be true that:

A. the resources are better at herding cattle than at making movies.

B. the resources are better at making movies than at herding cattle.

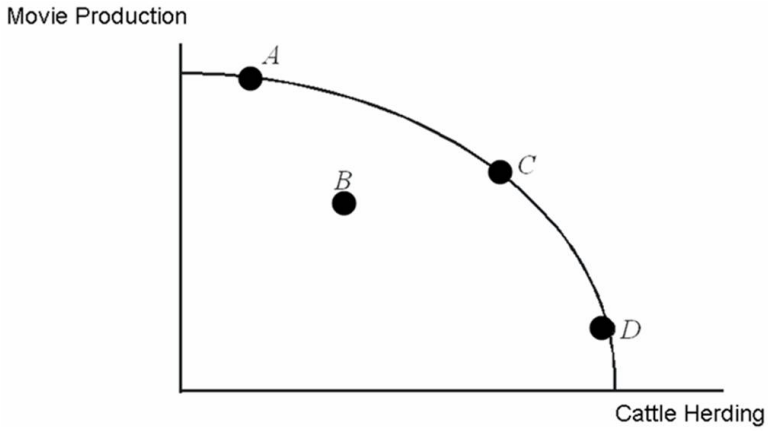
C. some resources are better at herding cattle and some residents are better at making movies.

D. this country has a comparative advantage in cattle herding.

116. 

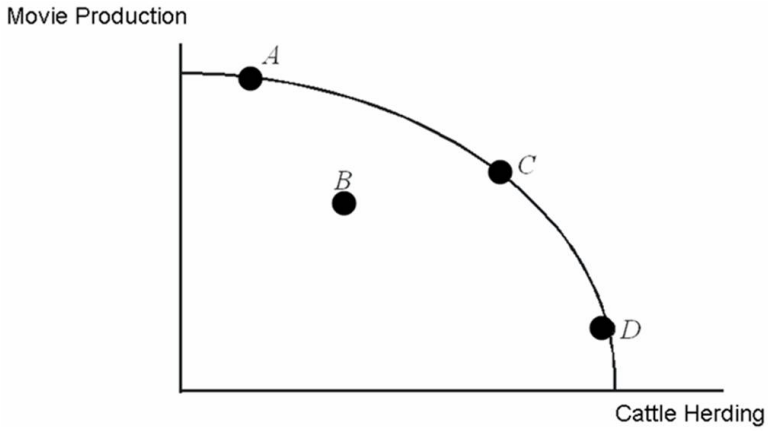
Refer to the figure above. At Point D:

A. resources that are better suited to making movies than to herding cattle are all being used to make movies.
B. the opportunity cost of herding more cattle is low because the economy is specializing in cattle herding.
C. the opportunity cost of herding more cattle is high because resources that are better suited to movie production are being used to herd cattle.
D. the economy is not operating efficiently.

117. 

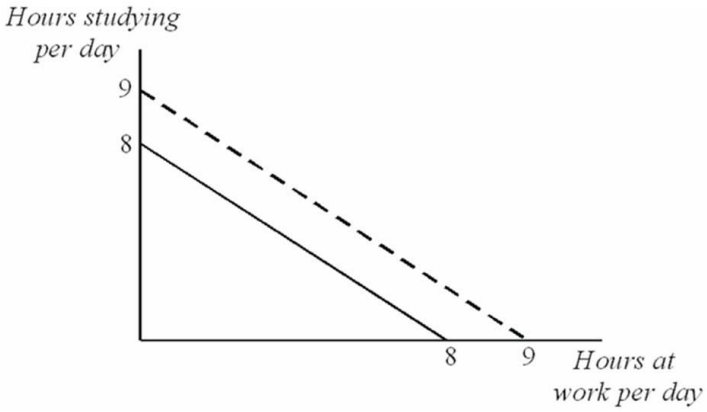
Refer to the figure above. This economy might be operating at Point B if:

A. technology has made cattle herding obsolete.
B. the low-hanging fruit principle applies.
C. opportunity costs are too high to finance a movie.
D. resources that are best suited for making movies are being used to herd cattle, while resources that are best used for herding cattle are being used to make movies.

118. 

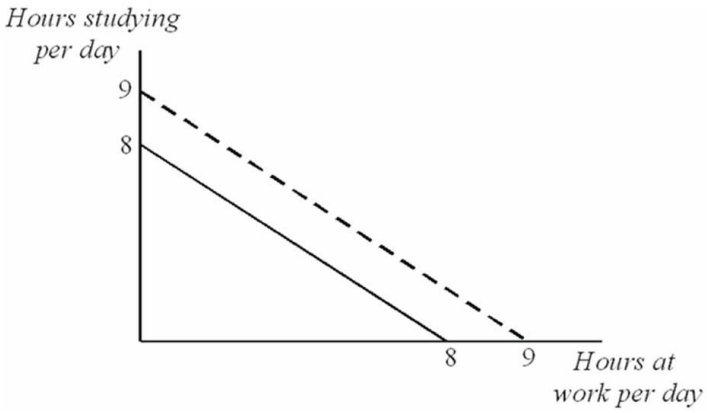
Refer to the figure above. If this economy were currently operating at Point D, in order to make more movies:

A. the first cattle herders to switch to movie making would be the cattle herders with the greatest comparative advantage in cattle herding.
B. the first cattle herders to switch to movie making would be the cattle herders with the highest opportunity cost of cattle herding.
C. no cattle herders would have to switch because the economy is already efficient.
D. no cattle herders would have to switch because they are specialized in cattle herding, not movie making.

119. 

Refer to the figure above. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity cost of spending one more hour studying:

A. is diminishing with each additional hour.
B. is increasing with each additional hour.
C. is exactly one hour of paid work.
D. is the marginal benefit from studying.

120. 

Refer to the figure above. Sven could move from the bold PPC to the dashed PPC by:

A. finding a job that paid a higher wage.
B. studying fewer hours but more effectively per hour.
C. devoting fewer hours to sleeping and eating.
D. spending more time on the activity for which he has a comparative advantage.

121. 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.

122. An existing comparative advantage can be further magnified by specialization because:

A. it eliminates the need to switch from one task to another.
B. repetition results in boredom.
C. a variety of tasks will rise.
D. small tasks will be merged into larger tasks.

123. Which of the following statements is NOT true about specialization?

A. Total economic output is larger due to specialization.
B. After specialization, worker skills are better matched with tasks.
C. Specialization focuses experience and increases comparative advantage.
D. The variety of tasks associated with a particular job grows over time due to specialization.

124. According to the textbook, the largest factor explaining the variance in the performance of the economies of the world is the:

A. degree of specialization.
B. technological sophistication.
C. location of the country.
D. type of government.

125. In the long-run, if the production of all goods increases for a society (there is economic growth), it will cause the production possibility curve to:

A. shift inward.
B. shift outward.
C. first shift inward and then shift outward.
D. stay the same.

126. Between the U.S. and Nepal, Nepal invests less in new factories and equipment. 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.

127. Which of the following factors would not contribute to increasing an existing comparative advantage?

A. Productivity improvements from greater experience.
B. Less time lost by switching tasks.
C. Import restrictions.
D. Efficiency improvements due to learning.

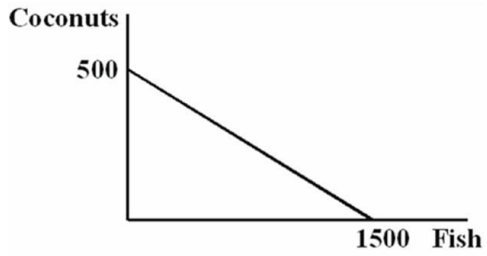
128. In general, it is true that:

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.

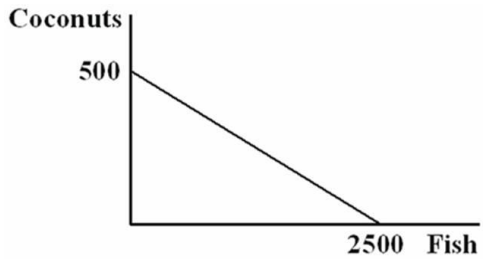
129. Suppose that a further increase in specialization allows a country to increase total output by 10%, but afterward it was discovered that work absenteeism increased by 30%. This is likely an example of:

A. modern production.
B. too much specialization.
C. too little specialization.
D. inefficiencies caused by labor unions.

130. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



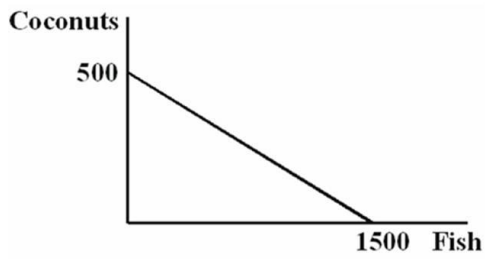
You are negotiating a deal with a neighboring island that has the following annual PPC:



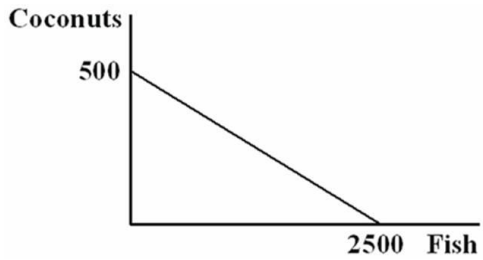
Refer to the figure above. As soon as you see the other island's PPC, you realize:

A. there will be no trade because the other island has the same comparative advantage as yours.
B. there will be no trade because there is no difference in your ability to harvest coconuts.
C. there will be no trade because the other island has an absolute advantage.
D. your island will have to specialize in coconuts if it wants to gain from trade.

131. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



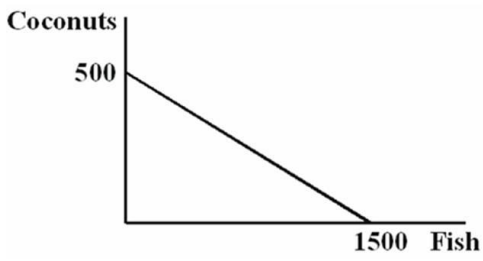
You are negotiating a deal with a neighboring island that has the following annual PPC:



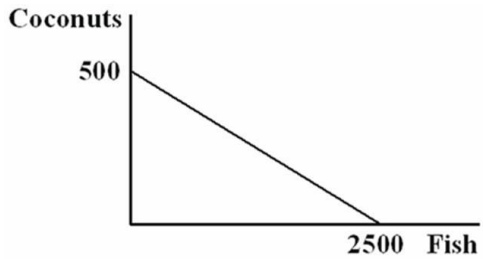
Refer to the figure above. When the other island's delegate offers to give you 1,000 fish in exchange for 500 coconuts, you:

A. accept because you will then have a total of 2,500 fish.
B. refuse because the trade would leave you at a level of consumption that is less than what you could produce on your own.
C. accept because the trade will leave you at a level of consumption that is more than what you could produce on your own.
D. counter, offering to give them 400 coconuts in exchange for 1,000 fish.

132. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



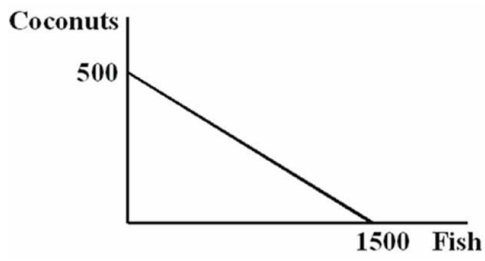
You are negotiating a deal with a neighboring island that has the following annual PPC:



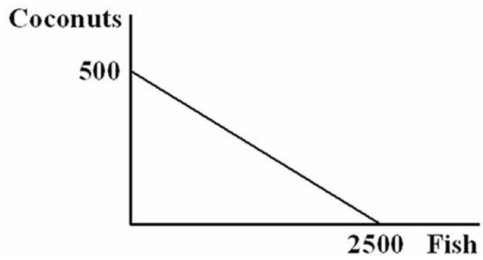
Refer to the figure above. You have arrived with 300 coconuts to trade. The minimum number of fish you would be willing to accept in exchange for those coconuts:

A. is 1,500 fish, because that's how many you can catch without trade.
B. is 1,200 fish, because that is just enough to offset the opportunity cost of harvesting the coconuts.
C. is 301 fish, because anything better than a one-for-one trade benefits your island.
D. is 901 fish, because that is just a little more than the opportunity cost of harvesting the coconuts.

133. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



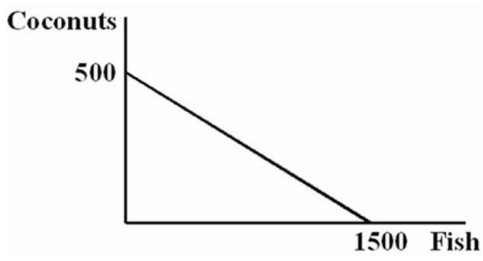
You are negotiating a deal with a neighboring island that has the following annual PPC:



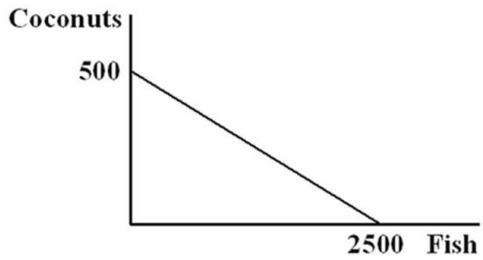
Refer to the figure above. If you offer to give the other island 400 coconuts in exchange for 1,500 fish:

A. they will refuse your offer because it makes them worse off than producing on their own.
B. they will accept your offer because it keeps them on their original PPC, and so is efficient.
C. they will accept your offer because it gives them 800 coconuts, which is more than they can make on their own.
D. they will accept your offer because it allows them to consume a combination of fish and coconuts that would be unattainable on their own.

134. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



You are negotiating a deal with a neighboring island that has the following annual PPC:



Refer to the figure above. Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to sell the other island 350 coconuts in exchange for 1,300 fish. After the trade your island has a total of _____ coconuts and _____ fish.

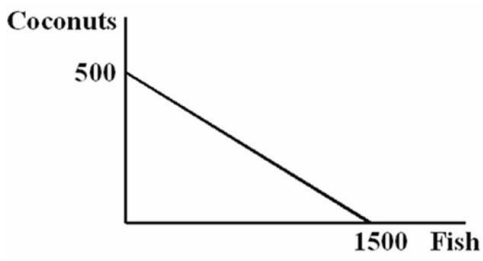
A. 150; 2,800

B. 500; 1,300

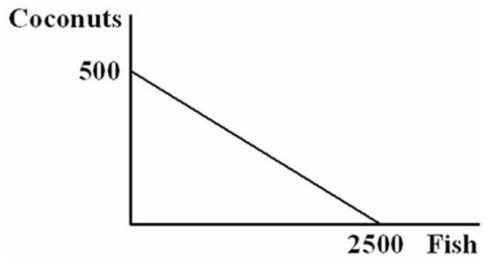
C. 150; 1,300

D. 500; 1,500

135. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



You are negotiating a deal with a neighboring island that has the following annual PPC:



Refer to the figure above. Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to sell the other island 350 coconuts 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

136. Large developed countries can produce more of practically everything than can small, less developed countries. Which of the following statements is true?

A. The large country has no incentive to trade with the smaller country.
B. It would be impossible for the smaller country to have a comparative advantage in making any products that the larger country wants to buy.
C. Trade will benefit both countries if each country has a comparative advantage in a traded product.
D. Trade between the countries is more likely to benefit the small country and harm the larger country.

137. The _____ the difference between domestic opportunity costs and international opportunity costs, the _____ the potential benefits of trading with other countries.

A. smaller; greater
B. greater; greater
C. greater; smaller
D. larger; more insignificant

138. The key to resolving the apparent paradox of international trade increasing total output yet facing much political opposition is noting that:

A. economists are mistaken about the increase in output.
B. only the wealthy benefit from trade.
C. no one benefits from trade.
D. everyone does not benefit equally from trade.

139. The political concern expressed about the North American Free Trade Agreement (NAFTA) was that:

A. prices to U.S. consumers would fall.
B. wages in Mexico would rise.
C. highly skilled workers in the United States would lose their jobs.
D. unskilled workers in the United States would lose their jobs.

140. When a government increases the cost of international trade, it is:

A. helping domestic consumers.
B. hurting all domestic producers.
C. reducing the total amount of output available to domestic consumers.
D. keeping all domestic prices artificially low.

141. The benefits to specialization are enhanced when two trading partners have:

A. absolute advantages in producing the same goods.
B. similar consumption preferences.
C. very similar opportunity costs.
D. large comparative advantages in different goods.

142. 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 reduced the employment of unskilled workers in the United States.

143. NAFTA helped _____ to exploit a comparative advantage in the production of goods made by unskilled labor.

A. Canada
B. Cuba
C. Mexico
D. The USA

144. It was expected that consumers in _____ would benefit from reduced prices of goods that will be freely traded under the NAFTA.

A. Canada
B. the United States
C. China
D. Mexico

145. When U.S. companies open offices in Asia and hire workers there, it is evidence that:

A. workers in Asian countries have an absolute advantage over American workers.
B. workers in Asian countries have a comparative advantage over American workers.
C. American workers have already picked all of the low-hanging fruit in the US, forcing companies to look elsewhere.
D. all of the resources with low opportunity costs have been depleted.

146. When journalists write about outsourcing, they are referring to:

A. firms that hire illegal immigrants at wages less than the minimum wage.
B. firms that import raw materials in order to produce more cheaply in the United States.
C. exports.
D. firms that hire low-wage workers in other countries to perform some of their work.

147. The main reason that firms outsource is that:

A. low-wage workers in other countries are more productive than are U.S. workers.
B. hiring low-wage workers reduces firms' costs.
C. hiring low-wage workers provides a tax deduction to firms.
D. U.S. workers cannot perform the tasks performed by workers in other countries.

148. When firms engage in outsourcing, _____ benefit and _____ are harmed.

A. the firms; consumers
B. consumers; the firms
C. consumers; the firm's domestic employees
D. the firms; the firms' foreign employees

149. A job is most likely to be outsourced if it:

A. involves face-to-face contact.
B. cannot be done by a computer.
C. does not require complex communication.
D. does not require use of computers or other technology.

150. 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

Chapter 02 Comparative Advantage Answer Key

Multiple Choice Questions

1. To say that an individual possesses an absolute advantage in the production of software means that individual:

   A. has a lower opportunity cost of producing software.
   B. can produce more and/or higher quality software in a given amount of time.
   C. was the first to create the software.
   D. charges the lowest price for software.

   Absolute advantage means being able to do something in less time.

   AACSB: Analytic
   Blooms: Remember
   Difficulty: 1 Easy
   Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
   Topic: Exchange and Opportunity Cost

2. If Scout has an absolute advantage over Dill:

   A. Scout has more money than Dill.
   B. the problem of scarcity applies to Dill, but not to Scout.
   C. the problem of scarcity applies to Scout, but not to Dill.
   D. Scout can accomplish more in a given period of time than can Dill.

   Absolute advantage means being able to do something in less time.

   AACSB: Analytic

Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

3. If Leslie can produce two pairs of pants in an hour while Eva can make one pair an hour, then it must be the case that:

A. Leslie has a comparative advantage.
B. Leslie has an absolute advantage.
C. Eva has a comparative advantage.
D. Leslie has both comparative and absolute advantage.

Absolute advantage means being able to do something in less time.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

4. If a nation can produce a good more quickly than any other nation, that nation has a(n):

A. comparative advantage.
B. absolute advantage.
C. relative advantage.
D. specialization advantage.

Absolute advantage means being able to do something in less time.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

5. Having a comparative advantage in a particular task means that:

A. you are better at it 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.

Comparative advantage means having a lower opportunity cost.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

6. Larry has a comparative advantage in writing a term paper if he:

A. can write a paper faster than the other students in class.
B. has an absolute advantage in writing a term paper.
C. always earns an A on his papers.
D. has the lowest opportunity cost for writing a term paper.

Comparative advantage means having a lower opportunity cost.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

7. If a nation has the lowest opportunity cost of producing a good, that nation has a(n):

A. comparative advantage.
B. absolute advantage.
C. comparative advantage and an absolute advantage.
D. absolute advantage and possibly a comparative advantage.

Comparative advantage means having a lower opportunity cost.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

8. Which of the following statements is always 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.

Comparative advantage and absolute advantage differ: you can have both at the same time, but you can also have either one but not the other.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

9. If Jane can produce 3 pairs of shoes hourly, while Bob can produce 2, then one can infer that the _____ advantage belongs to _____.

A. absolute; Jane
B. comparative; Jane
C. comparative; Bob
D. comparative and absolute; Jane

Absolute advantage means being able to do more in the same amount of time.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

10.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. According to the data, Corey has an absolute advantage in:

A. the production of pizza.
B. neither the production of pizza nor the delivery of pizza.
C. delivering pizza.
D. both the production of pizza and the delivery of pizza.

Corey can make more pizzas in an hour than can Pat.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

11.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. According to the data, Pat has an absolute advantage in:

A. the production of pizza.
B. neither the production of pizza nor the delivery of pizza.
C. delivering pizza.
D. both the production of pizza and the delivery of pizza.

Pat can deliver more pizzas in an hour than can Corey.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

12.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Corey's opportunity cost of the production of an extra pizza is the delivery of _____ pizza(s).

A. 2
B. 3/2
C. 2/3
D. 1/2

Corey can make 2 pizzas in the time it takes him to deliver 1 pizza. Therefore, he could only make half a delivery in the time he can make one pizza.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.

Topic: Exchange and Opportunity Cost

13.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Corey's opportunity cost of the delivery of an extra pizza is the production of _____ pizza(s).

A. 6
B. 12
C. 2
D. 1/2

Corey can make 2 pizzas in the time it takes him to deliver 1 pizza.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

14.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Pat's opportunity cost of the production of an extra pizza is the delivery of _____ pizza(s).

A. 3
B. 2
C. 3/2
D. 2/3

Pat can make 10 pizzas in the time it takes him to deliver 15 pizzas, a ratio of 2 to 3. Pat could deliver 3 pizzas in the time it takes Pat to make 2 pizzas. So making one more pizza would cost 1.5 deliveries.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

15.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Pat's opportunity cost of the delivery of an extra pizza is the production of _____ pizza(s).

A. 12
B. 10
C. 3/2
D. 2/3

Pat can make 10 pizzas in the time it takes him to deliver 15 pizzas, a ratio of 2 to 3. Pat could deliver 3 pizzas in the time it takes Pat to make 2 pizzas. Delivering 1 pizza takes the same amount of time as making 2/3 of a pizza.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

16.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. The comparative advantage for pizza production belongs to _____ and the comparative advantage for pizza delivery belongs to _____.

A. Corey; Corey
B. Pat; Pat
C. Pat; Corey
D. Corey; Pat

Corey gives up fewer deliveries in order to make a pizza; Pat gives up making fewer pizzas in order to deliver a pizza.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

17.

	Pizzas made per hour	Pizzas delivered per hour
Corey	12	6
Pat	10	15

Refer to the table above. Based on their comparative advantages, Pat should specialize in _____ while Corey should specialize in _____.

A. pizza delivery; pizza production
B. pizza production; pizza delivery
C. neither pizza production nor pizza delivery; both pizza production and pizza delivery
D. both pizza production and pizza delivery; neither pizza production nor pizza delivery

Everyone can do better when people concentrate on those activities for which they have a comparative advantage.

AACSB: Analytic

Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

18. 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. Lou has a comparative advantage over Alex in cooking.

Lou can clean more rooms than cook meals in an hour; Alex cleans and cooks the same number in an hour.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

19. Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. Suppose that in one hour Lou and Alex can do the following:

	Alex	Lou
Whole Hour Cleaning	3 rooms	5 rooms
Whole Hour Cooking	3 meals	4 meals
½ hour, Each Activity	1.5 rooms; 1.5 meals	2.5 rooms; 2 meals

Alex and Lou have worked out an efficient arrangement. Under that arrangement:

A. Alex and Lou do half of the cooking and half of the cleaning.
B. Alex does all of the cleaning, while Lou does all the cooking.
C. Lou does all of the cleaning and half of the cooking.
D. Lou does all of the cleaning, while Alex does all of the cooking.

Everyone can do better when people concentrate on those activities for which they have a comparative advantage.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

20. Lou and Alex live together and share household chores. They like to cook some meals ahead of time and eat leftovers. Suppose that in one hour Lou and Alex can do the following:

	Alex	Lou
Whole Hour Cleaning	3 rooms	5 rooms
Whole Hour Cooking	3 meals	4 meals
½ hour, Each Activity	1.5 rooms; 1.5 meals	2.5 rooms; 2 meals

For Alex, the opportunity cost of cleaning one room is ____ meal(s); for Lou the opportunity cost of cleaning one room is _____ meal(s).

A. 4; 4

B. 1; 4/5

C. 1; 5/4

D. 3; 5

Alex trades of cleaning and cooking at a ratio of 1 for 1. Lou can clean 5 rooms in the time it takes to make 4 meals, so Alex gives up only 4/5 of a meal to clean a room.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

21. 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

_____ 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

Larry sold the most cars and Ralph sold the most trucks.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

22. 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

For Larry, the opportunity cost of selling a truck is:

A. 10 fewer cars sold.
B. 1/2 car not sold.
C. 1 fewer car sold.
D. 2 fewer cars sold.

Larry sold twice as many cars as trucks, so he sells 2 cars in the amount of time it takes to sell 1 truck.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

23. 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

For Joe, the opportunity cost of selling a truck is:

A. 9 fewer cars sold.

B. 1 fewer cars sold.

C. 4 fewer cars sold.

D. 1/3 car not sold.

Joe sold the same number of cars as trucks. He appears to be equally skilled at selling each vehicle type.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

24. 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

For Ralph, the opportunity cost of selling a truck is:

A. 9 fewer cars sold.
B. 1/3 car not sold.
C. 3 fewer cars sold.
D. 1/4 car not sold.

Ralph sold 4 times as many trucks as cars, so selling a truck cost Ralph just one-fourth of a car sale.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

25. 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

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

Joe gives up one truck sale to sell a car, less than Ralph who gives up four truck sales. But Larry gives up only half a truck sale to sell a car, so Joe's opportunity cost of 1 truck is greater than Larry's opportunity cost of half a truck.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

26. 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

_____ should specialize in truck sales, and _____ should specialize in car sales.

A. Joe; Ralph
B. Ralph; Larry
C. Larry; Ralph
D. Larry; Joe

Everyone does better when people specialize in the activities for which they have a comparative advantage.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

27. Application of the Principle of Comparative Advantage leads to:

A. greater specialization of labor and other factors of production.
B. less specialization of labor and other factors of production.
C. societies without any specialization of labor.
D. lower total output.

The Principle of Comparative Advantage states that people should specialize in those activities for which their opportunity cost is lower, so it leads to specialization.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.

Topic: Exchange and Opportunity Cost

28. 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.

Baseball players specialize more. It's hard to hit a .400 against a specialist pitcher.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

29. Ginger and Maryann are lost in the jungle, where the only things to eat are mangoes and fish. Ginger can gather mangoes faster than Maryann and can also catch more fish per hour than can Maryann. Therefore:

A. Ginger should specialize in fishing because it is harder than gathering mangoes, and Maryann should specialize in gathering mangoes.
B. Ginger should strike out on her own, because Maryann reduces their combined productivity.
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.

Even if one person has an absolute advantage in both activities, they will do better if each specializes in the activity for which she has a comparative advantage.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

30. 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.

The Principle of Comparative Advantage states that people should specialize in those activities for which their opportunity cost is lower, which is the same as saying the activity for which they have a comparative advantage.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

31. 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

The Principle of Comparative Advantage states that people should specialize in those activities for which their opportunity cost is lower.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

32. A country may 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 the natural resources needed to produce steel.

One source of comparative advantage is the presence of natural resources.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

33. The United States generally has a comparative advantage in the development of technology because of:

A. larger amounts of natural resources.
B. a high concentration of the best research universities.
C. tax incentives.
D. the existence of patent law, which no other country provides.

The Unites States has a disproportionate share of the world's leading research universities where technology is developed and scientists are trained.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

34. The United States has a comparative advantage in producing books and movies because:

A. New York and Hollywood are the historic centers of book publishing and movie production.
B. wages for workers who print books and make movies are lower in the United States than elsewhere.
C. the English language is understood by many people all over the world.
D. the United States gives generous tax breaks to publishers and movie producers.

The emergence of English as the de facto world language gives English-speaking countries an advantage in language-based production.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

35. 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 United States engineers to keep up.
D. automated production allowed production to be outsourced to countries with less-skilled workers.

When television production required highly paid and highly skilled workers, the United States had a comparative advantage in television production, but once production became automated, lower skilled low-wage workers could produce televisions at less cost.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain and apply the Principle of Comparative Advantage.
Topic: Exchange and Opportunity Cost

36. 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(n):

A. production possibilities curve.
B. consumption possibilities curve.
C. production function.
D. supply curve.

The production possibilities curve describes the maximum amount of one good that can be produced for every possible amount produced of another good.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

37. The production possibilities curve shows:

A. the minimum production of one good for every possible production level of the other good.
B. how increasing the inputs used for one good increases the production of the other good.
C. the maximum production of one good 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.

The production possibilities curve describes the maximum amount of one good that can be produced for every possible amount produced of another good.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

38. The production possibilities curve is:

A. the boundary that divides all production combinations into efficient and inefficient ones.
B. a graph illustrating the production combinations society would like to choose.
C. the boundary that divides all production combinations into attainable ones and unattainable ones.
D. a graph illustrating supply curves for different combinations of output.

The production possibilities curve describes attainable combinations of production.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

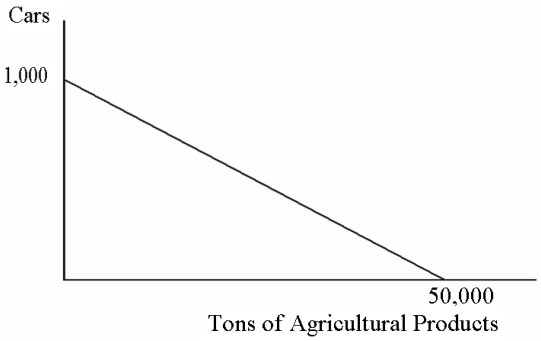
39. The core principle that is illustrated by the production possibilities curve is:

A. the Scarcity Principle.
B. the Cost-Benefit Principle.
C. the Incentive Principle.
D. The Principle of Comparative Advantage.

The downward slope of the production possibilities curve shows that having more of one good means having less of the other.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

40. This graph describes the production possibilities on the island of Genovia:



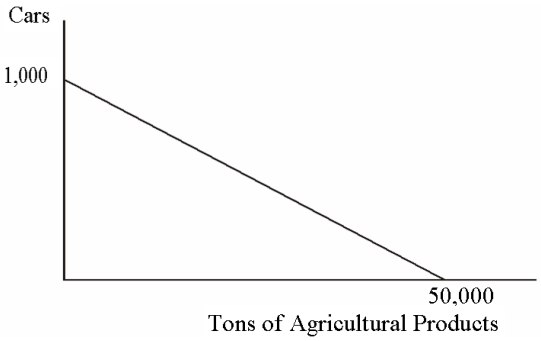
The opportunity cost of producing one car in Genovia is:

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.

The opportunity cost of any good equals what you must give up of the other good divided by what you gain. This country could give up 50,000 agricultural products to gain 1,000 cars. 50,000/1,000 = 50. For linear production possibility curves, the axis intercepts can be used to calculate opportunity cost.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

41. This graph describes the production possibilities on the island of Genovia:



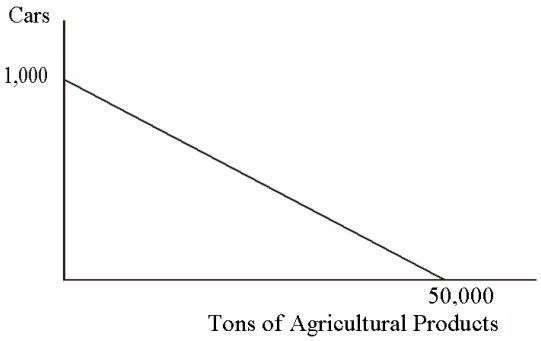
The opportunity cost of producing one ton of agricultural products in Genovia is:

A. 1,000 cars.
B. 1 car.
C. 1/5 of a car.
D. 1/50 of a car.

The opportunity cost of any good equals what you must give up of the other good divided by what you gain. This country could give up 1,000 cars to gain 50,000 tons of agricultural products. 1,000/50,000 = 1/50. For linear production possibility curves, the axis intercepts can be used to calculate opportunity cost.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

42. This graph describes the production possibilities on the island of Genovia:



Assuming efficient production, If 500 cars are produced in Genovia:

A. 50,000 tons of agricultural products are also being produced.
B. 25,000 tons of agricultural products are also being produced.
C. 45,000 tons of agricultural products are also being produced.
D. 40,000 tons of agricultural products are also being produced.

Starting from producing 1,000 cars and no agricultural products, the country can give up 500 cars and gain 25,000 tons of agricultural products.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

43. The slope of the production possibilities curve must be:

A. positive.
B. decreasing.
C. increasing.
D. negative.

The downward slope of the production possibilities curve shows that having more of one good means having less of the other.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

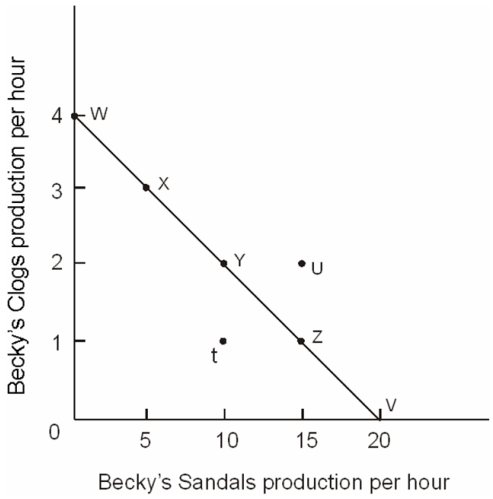
44. The slope of any production possibilities curve is _____ because _____.

A. negative; more production of one good means less production of the other
B. constant; the tradeoff in production never changes
C. positive; more production of one good means more production of the other
D. positive; more production of one good means less production of the other

The downward slope of the production possibilities curve shows that having more of one good means having less of the other.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

45.



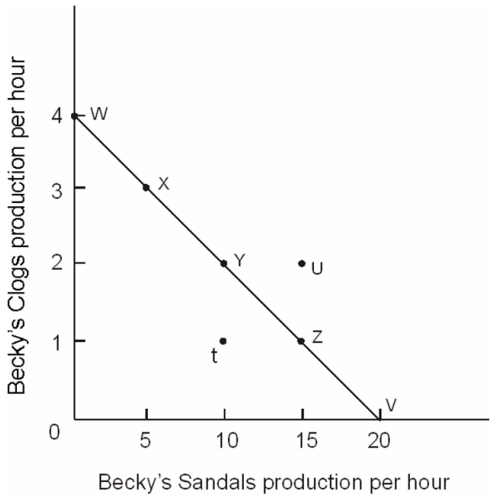
Refer to the figure above. Becky's maximum production of clogs per hour is represented by point:

A. *u.*
B. *t.*
C. *v.*
D. *w.*

The axis intercepts represent production when only one good is being produced. If any of the other good is produced, then less of the first good can be produced.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

46.



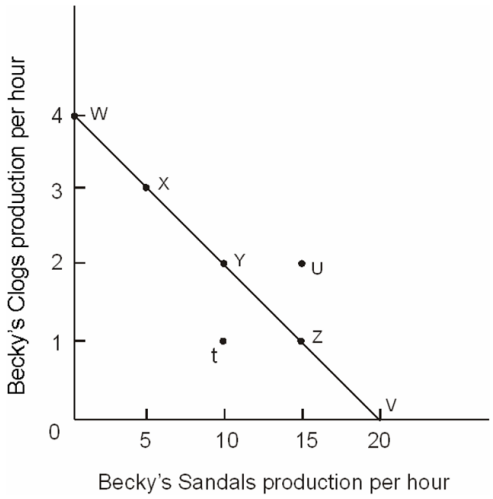
Refer to the figure above. Becky's maximum production of sandals per hour is represented by point:

A. *u.*
B. *t.*
C. *v.*
D. *z.*

The axis intercepts represent production when only one good is being produced. If any of the other good is produced, then less of the first good can be produced.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

47.



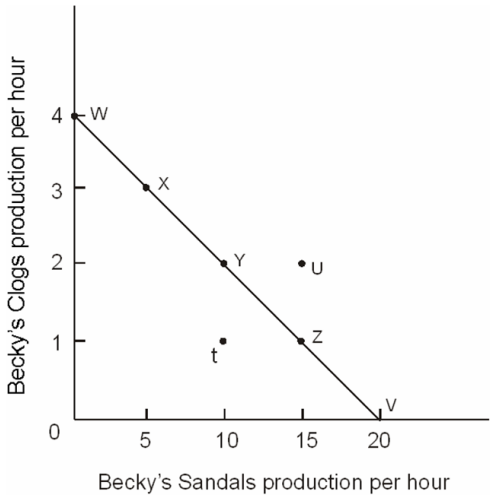
Refer to the figure above. Point *u* is an _____ point in relation to the production possibilities curve.

A. attainable
B. efficient
C. unattainable
D. inefficient

Points outside the boundary of the production possibilities curve are unattainable.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

48.



Refer to the figure above. Of the labeled points, _____ are attainable.

A. only *t* and *u*

B. only *x*, *y*, and *z*

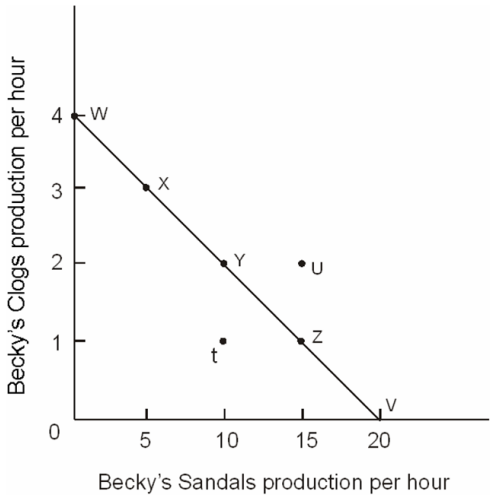
C. only *w*, *x*, *y*, *z*, and *v*

D. only *w*, *x*, *y*, *z*, *v*, and *t*

Points along and inside of the production possibilities curve are attainable.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

49.



Refer to the figure above. Of the labeled points, _____ are efficient.

A. only *t* and *u*

B. only *x*, *y*, and *z*

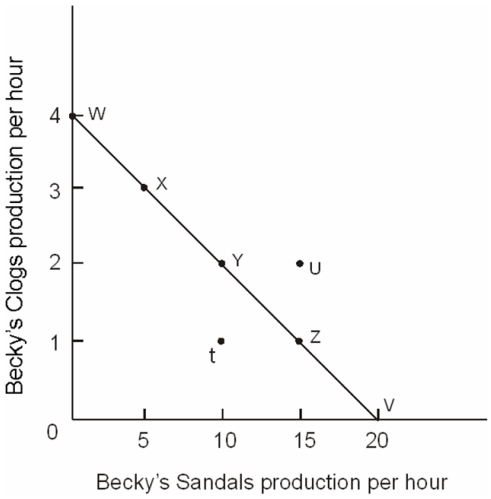
C. only *w*, *x*, *y*, *z*, and *v*

D. only *w*, *x*, *y*, *z*, *v*, and *t*

All points on the production possibilities curve are efficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

50.



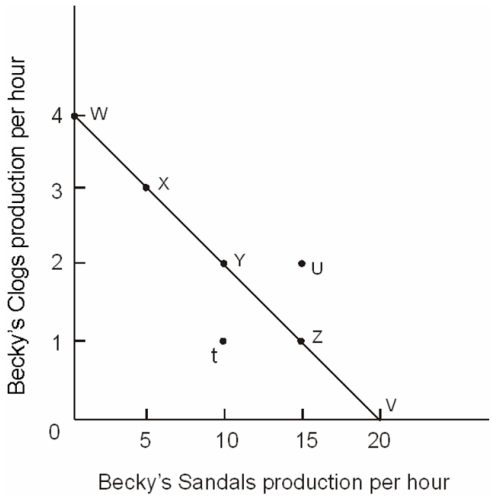
Refer to the figure above. Point *t* is an _____ point in relation to the production possibilities curve.

A. attainable
B. efficient
C. unattainable
D. inefficient

Points beneath the production possibilities curve are inefficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

51.



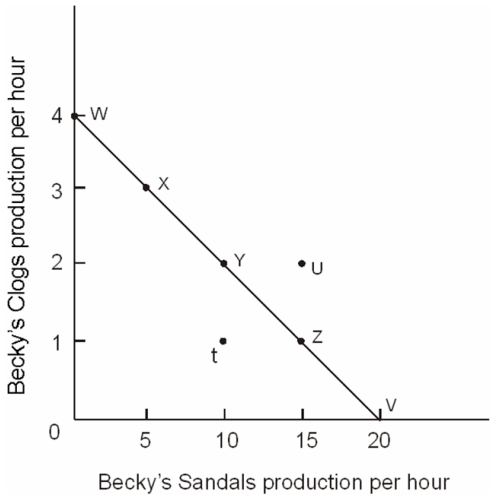
Refer to the figure above. Point *y* _____ point *v*.

A. is more efficient than
B. is less efficient than
C. is equally as efficient as
D. is more attainable than

All points on the production possibilities curve are equally efficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

52.



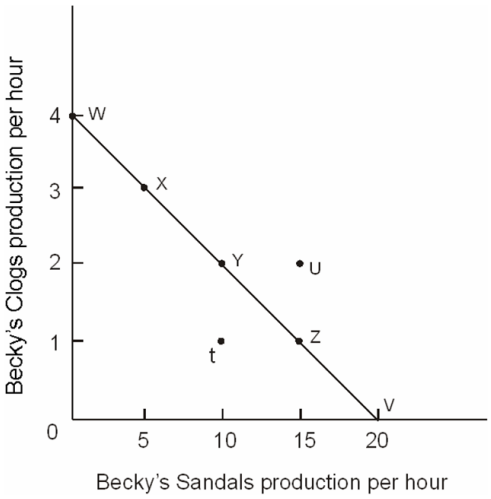
Refer to the figure above. Relative to point *x*, at point *y*:

A. more sandals and more clogs are produced.
B. more sandals and fewer clogs are produced.
C. more clogs and fewer sandals are produced.
D. fewer sandals and fewer clogs are produced.

Moving from point x to point y, clogs are given up in order to produce more sandals.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

53.



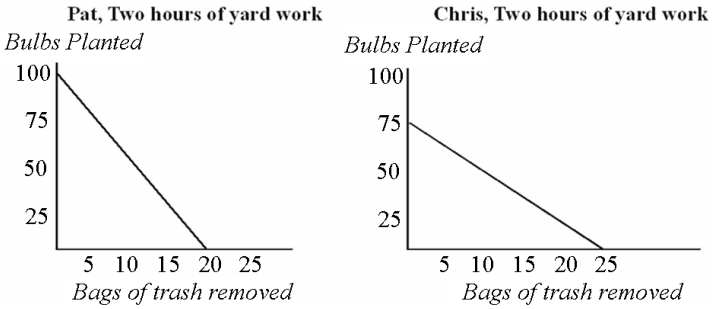
Refer to the figure above. Suppose that during the summer Becky can sell more sandals than she can clogs. If she had been producing at point *x* in the winter, during the summer she will produce at:

A. point *w*.
B. point *z*.
C. point *u*.
D. point *t*.

Becky will want to produce what she can sell. Of the points listed, only point z is both attainable and yields more sandals than clogs.

AACSB: Analytic
Blooms: Evaluate
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

54.



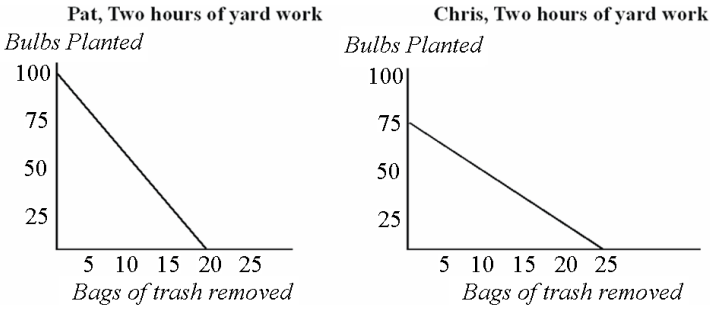
Refer to the figure above. For Pat, the opportunity cost of removing one bag of trash is:

A. not planting 25 bulbs.
B. not planting 5 bulbs.
C. not planting 10 bulbs.
D. not planting one-fifth of a bulb.

The opportunity cost of any good equals what you must give up of the other good divided by what you gain. Pat gives up 5 bulbs for each bag of trash hauled. 100/20 = 5.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

55.



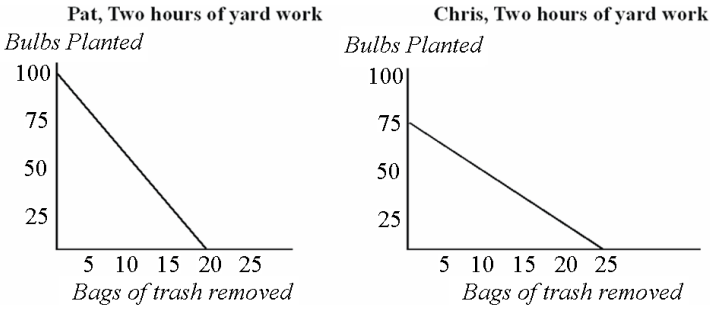
Refer to the figure above. For Chris, the opportunity to removing one bag of trash is:

A. not planting 25 bulbs.
B. not planting 5 bulbs.
C. not planting 3 bulbs.
D. not planting one-third of a bulb.

The opportunity cost of any good equals what you must give up of the other good divided by what you gain. Chris gives up 3 bulbs for each bag of trash hauled because 75/25 = 3.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

56.

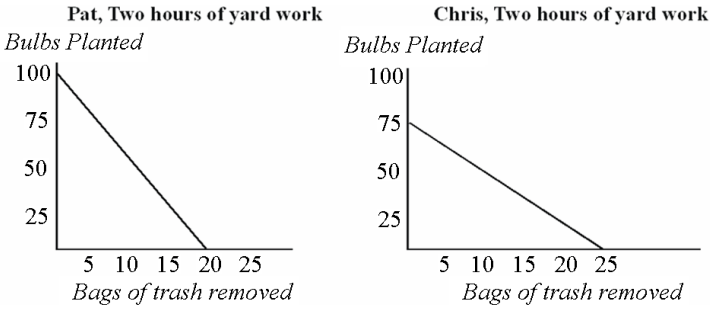


Refer to the figure above. If Pat and Chris were to specialize in the task for which each has a comparative advantage:

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 one hour on each task.
D. both Pat and Chris would plant bulbs because they both have an absolute advantage in that task.

Chris gives up fewer bulbs to haul out trash so Chris' comparative advantage is in trash hauling. Pat has a comparative advantage in bulb planting.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

57. 

Refer to the figure above. If Pat and Chris each spend half their time on each task the outcome will consist of:

A. the greatest possible combined production.
B. greater combined production than if each had specialized.
C. less combined production than if each had specialized.
D. an unattainable level of combined production.

Failing to specialize yields lower production.

AACSB: Analytic
Blooms: Evaluate
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

58. If a point on a production possibilities curve is attainable:

A. it must be efficient.
B. it might or might not be efficient.
C. it is efficient only if it does not exhaust all currently available resources.
D. it must completely exhaust all currently available resources.

Points along and beneath the production possibilities curve are attainable, but only points on the curve are efficient.

AACSB: Analytic

Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

59. Any combination of goods that can be produced with currently available resources defines a(n):

A. attainable point on a production possibilities curve.
B. efficient point on a production possibilities curve.
C. inefficient point on a production possibilities curve.
D. attainable and efficient point on a production possibilities curve.

Attainable points are defined as any combination of goods that can be produced using currently available resources.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

60. An inefficient point on a production possibilities curve is:

A. necessarily also an attainable point.
B. not necessarily an attainable point.
C. necessarily an unattainable point.
D. possibly an unattainable point.

Inefficient points can be produced using currently available resources.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

61. If a producer is operating at an inefficient point on a production possibilities curve using currently available resources, 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.

Inefficient points lie below the production possibilities curve so it is possible, given currently available resources, to produce more of one good without giving up production of the other good.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

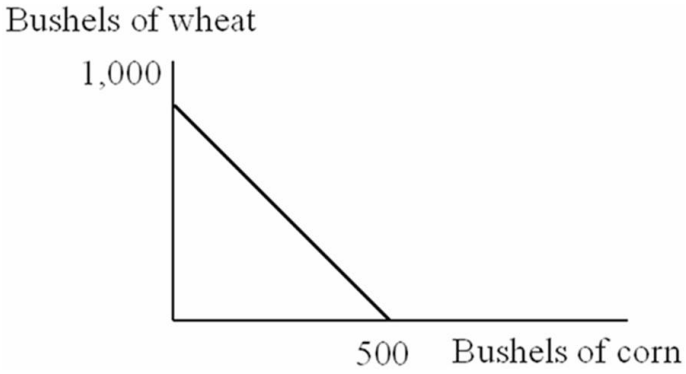
62. Points that lie below the production possibilities curve are inefficient because:

A. more of one or both goods could be produced using currently available resources without giving up production of another good.
B. producers are not specializing.
C. producers face scarcity.
D. too many goods are being produced.

Inefficient points lie below the production possibilities curve so it is possible, given currently available resources, to produce more of one good without giving up production of the other good.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.

Topic: Comparative Advantage and Production Possibilities

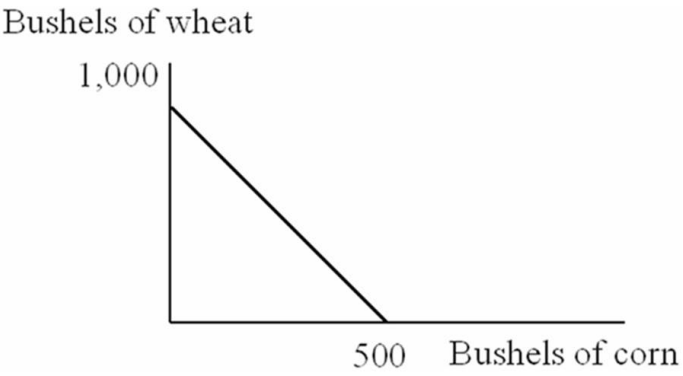
63. 

Refer to the figure above. It is _____ for this farmer to grow 1,000 bushels of wheat and no corn relative to growing 500 bushels of corn and no wheat.

A. not efficient
B. more efficient
C. less efficient
D. equally as efficient

All points along the production possibilities curve are equally efficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

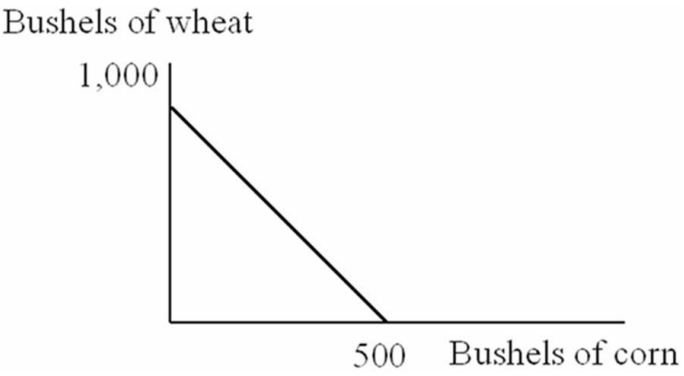
64. 

Refer to the figure above. 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 1000 bushels of wheat and 500 bushels of corn.

Only the point 500 bushels of wheat and 250 bushels of corn is attainable and along the production possibilities curve.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

65. 

Refer to the figure above. The opportunity cost to produce 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.

This farmer can grow twice as much wheat as corn using available resources. Therefore, each bushel of corn grown means giving up two bushels of wheat.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

66. If a given production combination is known to be attainable, then it must be:

A. on the production possibilities curve.
B. an inefficient point.
C. an efficient point.
D. either an inefficient or efficient point.

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.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

67. If a given production combination is efficient, then it must be:

A. beyond the production possibilities curve.
B. on the production possibilities curve.
C. either an attainable or an unattainable point.
D. the best combination out of all possible combinations.

Points on the production possibilities curve are efficient.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

68. 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.

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. That point is unattainable.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

69. Point A on a linear production possibilities curve represents a 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

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 is 3.

AACSB: Analytic

Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

70. Point A on a linear production possibilities curve represents a 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

Opportunity cost can be seen from the slope of the PPC. Here, it is the reciprocal of the slope, because you are giving up one cappuccino in exchange for 3 coffees.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

71. 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 slope of the production possibilities line.
D. the negative of the opportunity cost of the good measured on the horizontal axis.

Opportunity cost can be seen from the slope of the PPC, because the PPC measures the trade-off in production of goods. Slope is defined as rise/run, so what you give up (your opportunity cost) for the good measured on the vertical axis is the rise.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

72. If your linear, two-good production possibilities graph has a slope steeper than -1:

A. you would have to give up more than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
B. you would have to give up less than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
C. by specializing in the good measured on the horizontal axis you would be able to make more total units than you would if you specialized in the good measured on the vertical axis.
D. you have a comparative advantage in the good measured on the vertical axis.

Opportunity cost can be seen from the slope of the PPC. If the slope is steep, that means that the horizontal distance is less than the vertical distance, so to obtain one more unit on the vertical axis you would give up less than a full unit on the horizontal.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard

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.
Topic: Comparative Advantage and Production Possibilities

73. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Refer to the information above. The intercept on the *test score* axis of Pat's PPC is:

A. 100
B. 92
C. 5 hours
D. 4 hours

The highest grade Pat can get, by allocating the entire 4 hours to studying, is a 92.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

74. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Refer to the information above. Pat's PPC for *test score* versus *hours playing a new video game* is:

A. upward-sloping.
B. downward-sloping.
C. first upward- and then downward-sloping.
D. first downward- and then upward-sloping.

For each additional hour of video game playing, Pat's test grade falls.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

75. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Refer to the information above. The opportunity cost of the 2nd hour of playing the video game is:

A. 10 points on the test.
B. 5 points on the test.
C. 7 points on the test.
D. 2.5 points on the test.

Pat's test score would fall from 87 to 80 if Pat plays a second hour.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

76. Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by another 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Refer to the information above. The opportunity cost of playing video games:

A. decreases the longer Pat plays.
B. increases the longer Pat plays.
C. is greater than the value of earning a higher grade on the test.
D. is equal to the value of earning a higher grade on the test.

The first hour of playing costs Pat 5 points, the second costs Pat 7 points, and so on.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

77. The fundamental reason the production possibilities curve has a downward slope is:

A. workers are inefficient.
B. resources are of low quality.
C. resources are fixed and therefore tradeoffs must be made.
D. it has empirical support but why it is so is still a mystery.

The PPC illustrates the scarcity principle: to produce more of one thing, you must give up production of another.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

78. In a two-person, two-good economy, the benefits of labor 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 in the respective opportunity costs of the two individuals for both goods.
D. there are large differences in the respective opportunity costs of the two individuals for both goods.

The greater the difference in opportunity costs, the greater the opportunity to gain from specializing and then trading.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

79. According to the principle of increasing opportunity cost, expanding production requires using resources in which order?

A. In random order.
B. Starting with the resource with the highest opportunity cost and progressing to the lower opportunity cost resources.
C. Starting with the resource closest to the average opportunity cost, then progressing to higher opportunity cost resources.
D. Starting with the resource with the lowest opportunity cost and proceeding to the higher opportunity cost resources.

Recall the low-hanging-fruit analogy: take advantage of the most favorable opportunities first.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy

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.
Topic: Comparative Advantage and Production Possibilities

80. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. The opportunity cost of making an extra calculator for Smith is _____ and for Jones it is _____.

A. 0.10 computers; 0.05 computers
B. 10 computers; 6 computers
C. 1 computer; 0.5 computers
D. 0.6 computers; 1.2 computers

Smith makes ten times as many calculators as computers; Jones makes twenty times as many calculators as computers.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

81. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. By coordinating their production decisions, the maximum number of computers Smith and Jones can produce in an hour is:

A. 120.
B. 6.
C. 16.
D. 10.

My producing only computers, Smith makes 10 and Jones makes 6 for a total of 16.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

82. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. 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, then Smith will spend _____ and Jones will spend _____.

A. 1 hour on computers; 40 minutes on computers and 20 minutes on calculators
B. 1 hour on computers; 20 minutes on computers and 40 minutes on calculators
C. 30 minutes on each; 30 minutes on each
D. 45 minutes on computers and 15 on calculators; 1 hour on calculators

Jones has a comparative advantage in producing calculators so should make those, then switch to making computers. Smith should make only computers.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

83. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. 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, then Smith will spend _____ and Jones will spend _____.

A. 30 minutes on each; 30 minutes on each
B. 48 minutes on computers and 12 minutes on calculators; 1 hour on calculators
C. 1 hour on calculators; 10 minutes on computers and 50 minutes on calculators
D. 12 minutes on computers and 48 minutes on calculators; 1 hour on calculators

Jones has a comparative advantage in producing calculators so should make those. Smith should make the first two computers, then switch to calculators.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

84. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. If Smith and Jones are dividing their time efficiently and producing more than 10 computers and fewer than 120 calculators per hour, 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

Smith has a comparative advantage in producing computers so should make those. Jones should make the remaining computers and all of the calculators.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

85. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. If Smith and Jones are dividing their time efficiently and producing fewer than 10 computers and more than 120 calculators per hour, Smith will _____ and Jones will _____.

A. split his time between the two; produce only calculators
B. split his time between the two; split his time between the two
C. produce only calculators; produce only computers
D. produce only computers; produce only calculators

Jones has a comparative advantage in producing calculators so should make only those. Smith should make the remaining calculators and all of the computers.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

86. Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

Good	Smith	Jones
Computers	10	6
Calculators	100	120

Refer to the table above. Suppose Smith and Jones begin by producing 100 calculators per hour; as Smith and Jones choose to efficiently produce fewer computers and more calculators, _____ devotes 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

Jones has a comparative advantage in calculators, so should make all of the calculators until more than 120 are needed.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

87. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The daily opportunity cost of moving one miner from Mother Lode to Scraping Bottom is:

A. 2 tons.
B. 3 tons.
C. 4 tons.
D. 1 ton.

At Mother Lode, 25 miners yield 100 tons, so moving one miner out costs 4 tons.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

88. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The daily opportunity cost of moving one miner from Scraping Bottom to Middle Drift is:

A. less than 0.
B. 3 tons.
C. 4 tons.
D. 5 tons.

At Scraping Bottom, 10 miners yield 30 tons, so moving one miner out costs 3 tons.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

89. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. The opportunity cost of moving one miner from Middle Drift to Mother Lode is:

A. 1 ton.
B. 3 tons.
C. 4 tons.
D. 5 tons.

At Middle Drift, 15 miners yield 75 tons, so moving one miner out costs 5 tons.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

90. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. Earth Movers & Shakers has just received an order for 60 tons of ore, to be filled in a single day. 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.

The principle of increasing opportunity costs states that you should use the least-costly resources first.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

91. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

Refer to the table above. Earth Movers & Shakers needs to fill an order for 100 tons of ore in a single day, and has no other orders to fill that day. 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.

The principle of increasing opportunity costs states that you should use the least-costly resources first.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

92. Earth Movers & Shakers operates 3 iron ore mines. This table shows their daily production rates and the current number of miners at each mine. All of the miners work for the same wage and each miner in any given mine produces the same number of tons as each other miner in that mine.

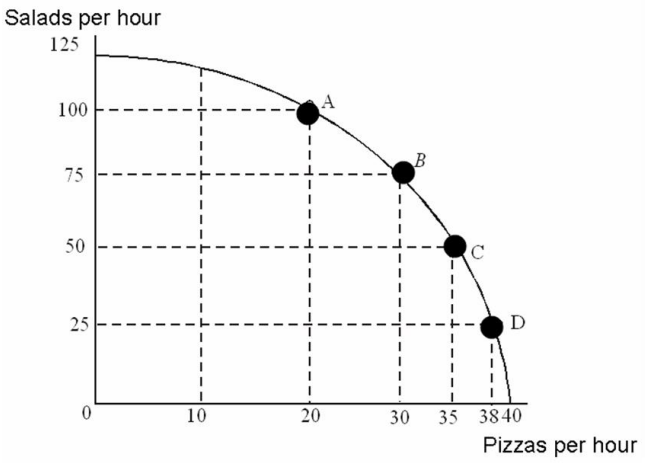
Mine	Tons	Number of Miners
Mother Lode	100	25
Scraping Bottom	30	10
Middle Drift	75	15

By taking the first tons from _____, Earth Movers & Shakers is producing consistent with the _____ Principle.

A. Mother Lode; Low Hanging Fruit
B. Middle Drift; Compromise
C. Middle Drift; Low Hanging Fruit
D. Scraping Bottom; Cost Minimizing

The opportunity cost at Middle Drift is the lowest of the three mines.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

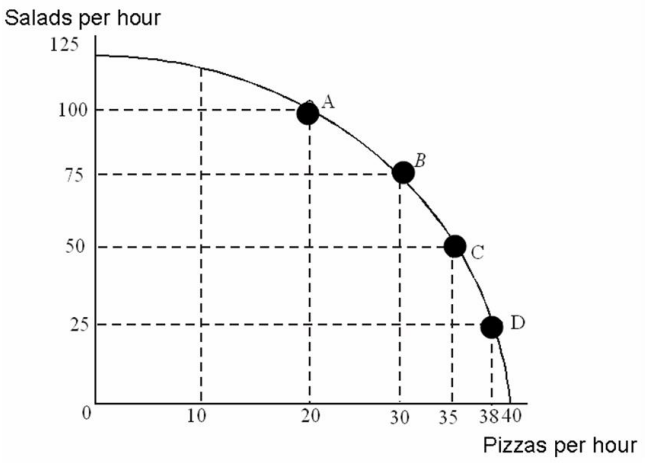
93. 

Refer to the figure above. If this restaurant makes 75 salads in one hour, how many pizzas can it also make in that same hour, assuming efficient production?

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

Efficient production of 75 salads occurs at Point B. The corresponding number of pizzas is read from the x-axis.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

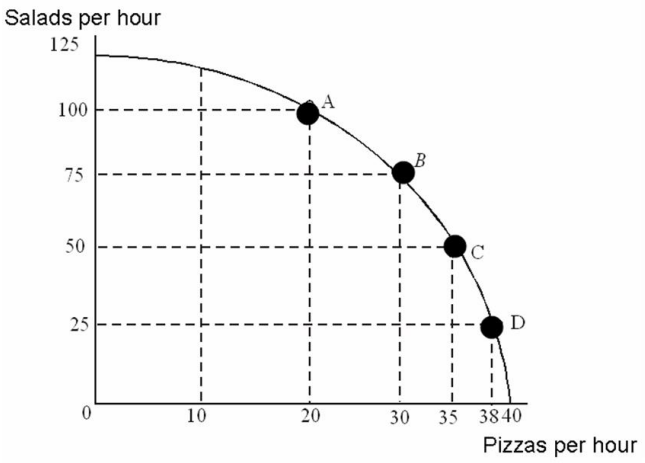
94. 

Refer to the figure above. Moving from Point B to Point C, this restaurant would be:

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.

Movement along a downward sloping PPC produces more of one good and less of the other.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

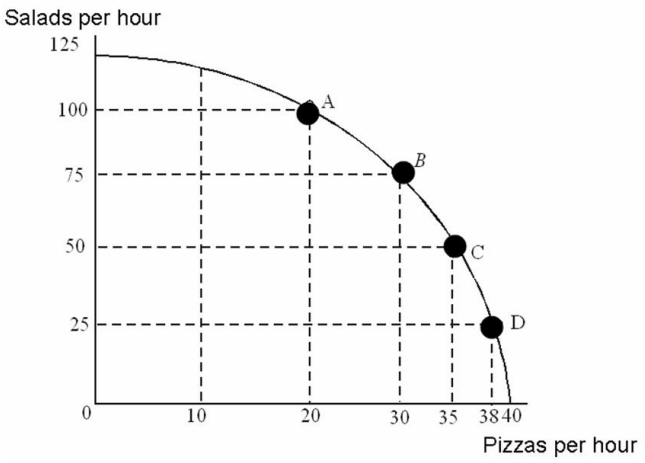
95. 

Refer to the figure above. Moving from Point C to Point B, the opportunity cost of 25 more salads is:

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

This production shift would decrease pizza production from 35 to 30.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

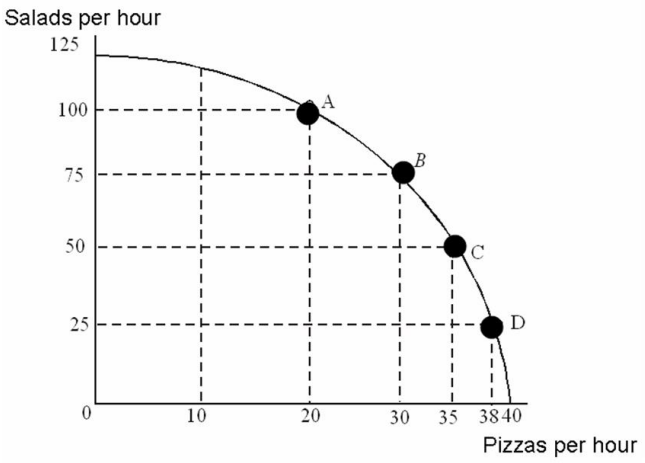
96. 

Refer to the figure above. Moving from Point B to Point A, the opportunity cost of 25 more salads is:

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

This production shift would decrease pizza production from 30 to 20.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

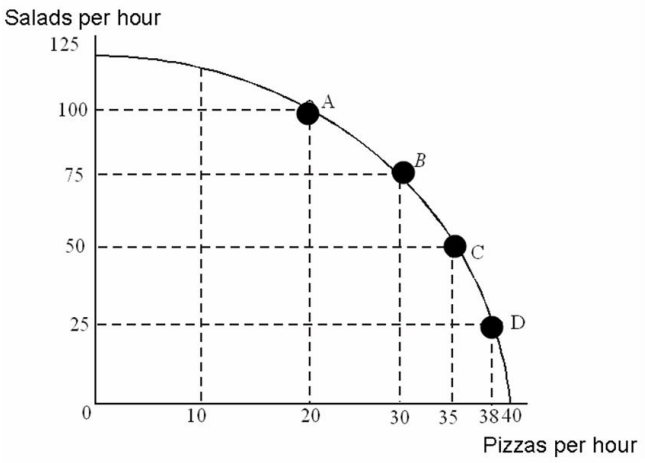
97. 

Refer to the figure above. 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.

The outward bow of a PPC illustrates increasing marginal costs of production.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

98. 

Refer to the figure above. Compare the degree of efficiency at each point. Which is true?

A. Point A is less efficient than Point B.

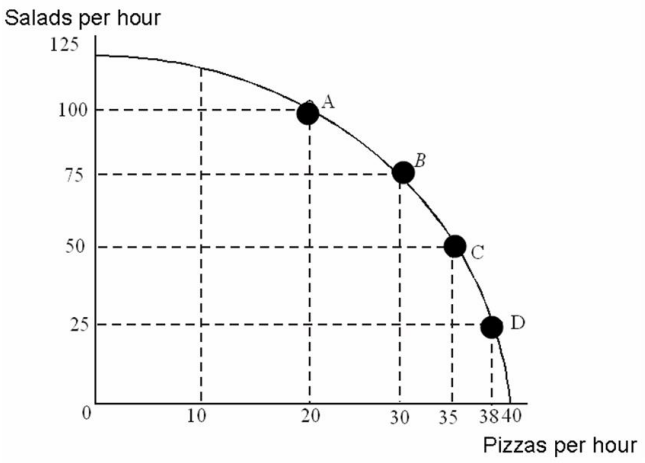
B. Points A, B, and C are more efficient than Point D.

C. Points B and C are more efficient than either Point A or Point D.

D. Points A, B, C and D are equally efficient.

All points on a production possibilities curve are equally efficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

99. 

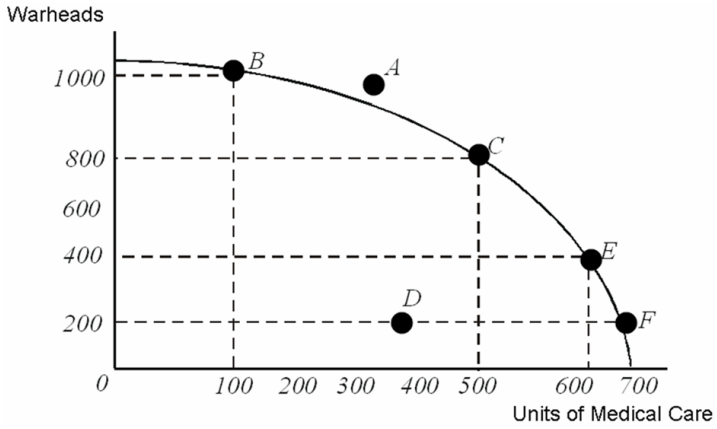
The PPC shown in this graph is characteristic of production that displays:

A. constant opportunity costs.
B. decreasing opportunity costs as production of a good increases.
C. increasing opportunity costs as production of a good increases.
D. inefficient production because it is downward sloping.

The outward bow of a PPC illustrates increasing marginal costs of production.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

100.

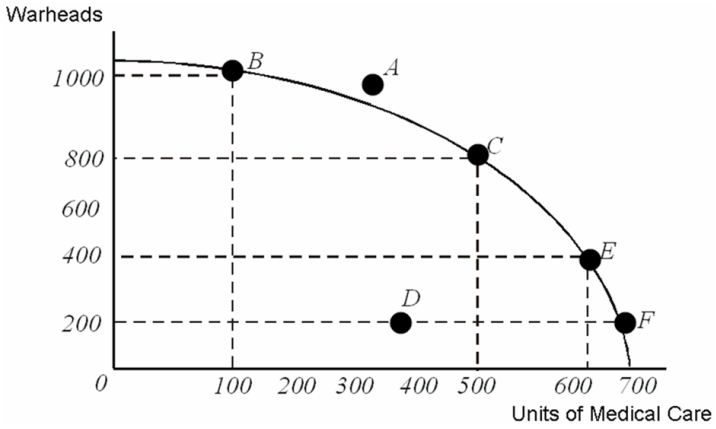


Refer to the figure above. Which of the following is true given the production possibilities shown?

A. Point C is more efficient than Point B because at Point C the opportunity cost of another warhead is lower than at Point B.
B. Point B is the most efficient feasible point because it represents specialization in warheads.
C. Point F is the most efficient feasible point because it represents specialization in medical care.
D. Points B, C, and E are equally efficient.

All points on a production possibilities curve are equally efficient.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

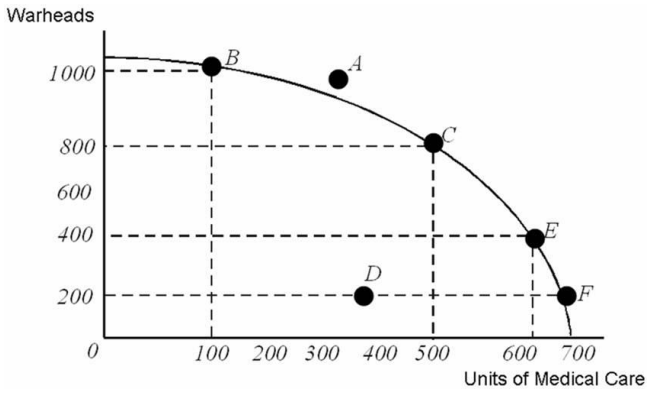
101. 

Refer to the figure above. Suppose that the government requires that resources are 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 a point other than C.
D. Production at Point D.

Point D is inefficient. It lies under the production possibilities curve.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

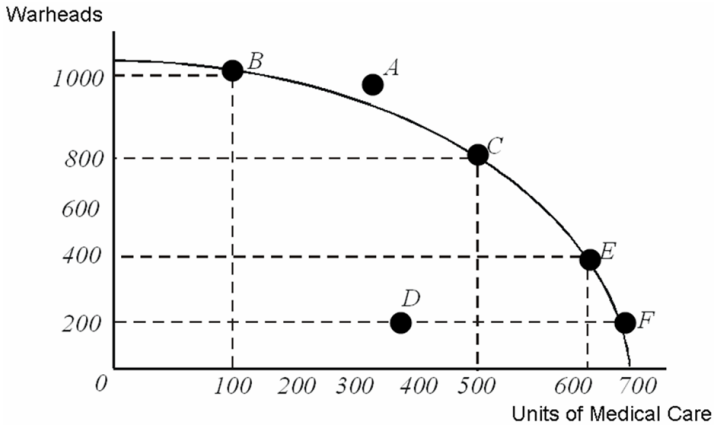
102. 

Refer to the figure above. Suppose that this economy is currently producing at point B, but an aging population is demanding more medical care. Providing 400 additional units of medical care will cost this economy:

A. 800 warheads.
B. 400 warheads.
C. 200 warheads.
D. 600 warheads.

This production shift is a movement from Point B to Point C which is a reduction from 1000 warheads to 800 warheads.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

103. 

Refer to the figure above. Increasing the quantity of medical care provided from 100 units to 300 units costs _____ increasing the quantity of medical care provided from 400 units to 600 units.

A. more than
B. less than
C. exactly the same as
D. twice as much as

The bowed-out shape of the PPC shown indicates that costs are increasing as more medical care is provided. As more medical care is provided, the movement is along a steeper portion of the PPC.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

104. Production possibilities curves for large economies generally have an outward bow shape 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 the same good, those resources become less and less expensive.

The outward bow shape arises because producers employ the lowest-cost resources first, following the principle of increasing opportunity costs, or the low-hanging-fruit principle.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

105. The Principle of Increasing Opportunity Costs implies that:

A. productive people do the hardest tasks first, while they are fresh.
B. to increase production, you should use the resources with the lowest opportunity cost first.
C. the cost-benefit principle does not apply to increasing productivity.
D. specialization increases productivity.

This principle is also known as the low-hanging-fruit principle: do the easiest or least-cost thing first.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and Production Possibilities

106. You have noticed that your next-door neighbor, Mary, always works in the garden and her husband, Joe, always walks the dog. Based on this observation, you conclude that:

A. Mary has an absolute advantage in gardening.
B. Joe has a comparative advantage in walking the dog.
C. Mary does not understand the principle of low-hanging fruit.
D. Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.

People do better when they specialize in an activity for which they have a comparative advantage.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

107. The principle of comparative advantage states that specialization increases productivity, but the principle of increasing opportunity costs states that, when you increase production of a single good, you must use increasingly costly resources. These two principles:

A. are evidence that economic theory is internally inconsistent.
B. are an example of the difference between abstract models and the real world.
C. cannot be true at the same time.
D. together account for the outward bow shape of production possibility curves.

Specialization refers to an individual or individual country; the principle of increasing costs arises when you consider a many-person economy.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

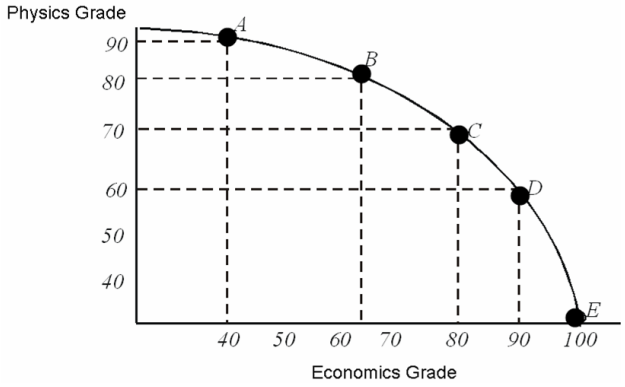
108. The benefits of specialization can be used to explain why:

A. workers prefer to work on a variety of tasks during the day.
B. machines are more productive than human workers.
C. trade can make both parties to the trade better off.
D. big companies take advantage of smaller ones.

Specialization allows two parties with different opportunity costs to benefit from trade.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

109. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



Refer to the figure above. Both of Moe's professors require at least a 65 to pass and a 90 to earn an A. After looking at his PPC, Moe realizes that:

A. he can pass both classes.
B. he can pass economics, but only if he fails physics.
C. he can pass physics, but only if he fails economics.
D. he could earn an A in economics and still pass physics.

A 65 on each is attainable (lies beneath his PPC).

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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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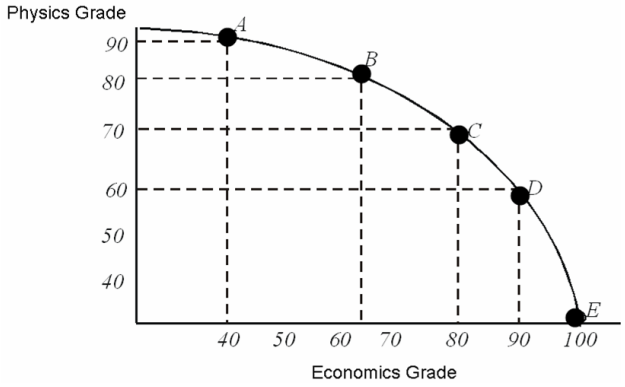

Refer to the figure above. Moe's PPC is bowed out because:

A. he is better at physics than at economics.
B. his studying is subject to the principle of increasing opportunity costs.
C. he is better at economics than at physics.
D. he has failed to take advantage of his comparative advantage.

A bowed-out PPC is consistent with increasing opportunity costs.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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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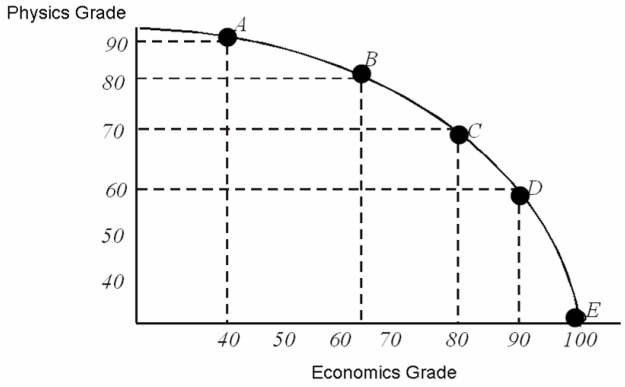

Refer to the figure above. According to Moe's PPF, moving from a grade of 80 in economics to a grade of 90 in economics:

A. is inefficient.
B. comes at a lower opportunity cost than moving from a 90 to a 100 in economics.
C. is not feasible.
D. comes at a higher opportunity cost than moving from a 90 to a 100 in economics.

Moe's bowed-out PPC is consistent with increasing opportunity costs.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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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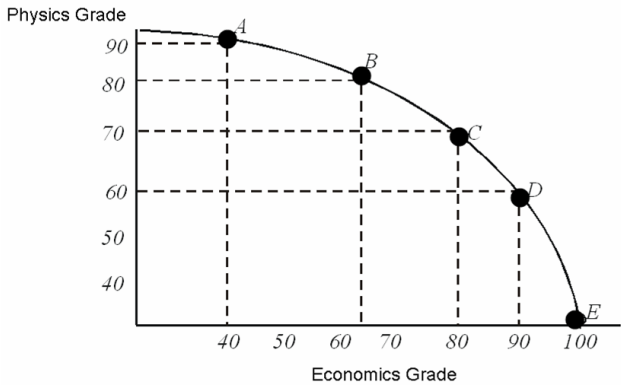
112. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



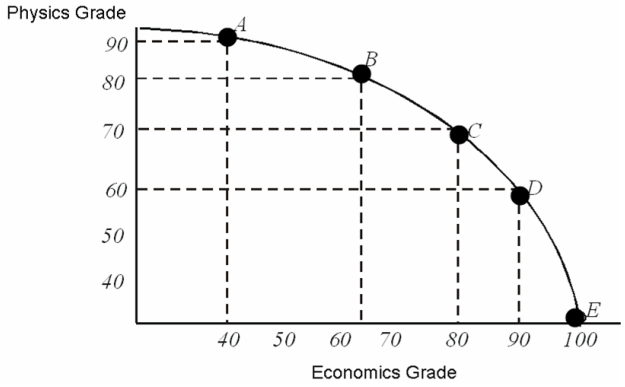
Refer to the figure above. If Moe moved from Point A to Point C, his grade in Physics would go down by _____ his grade in economics.

A. less than the increase in
B. more than the increase in
C. more than the decrease in
D. less than the decrease in

Moving from Point A to Point C, Moe's economics grade increases from 40 to 80 while his physics grade falls by only 20 points, from 90 to 70.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

113. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



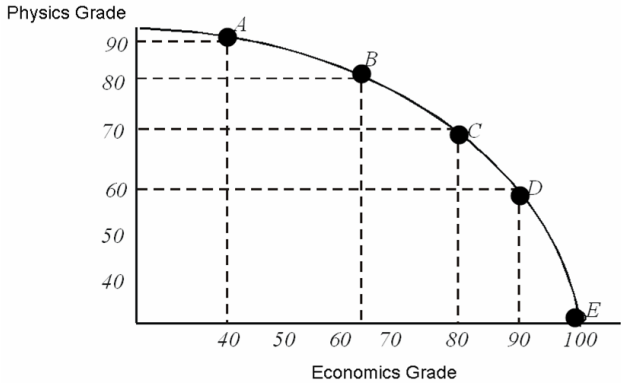
Refer to the figure above. Which of the following is evidence that the low-hanging fruit principle applies to Moe's study habits?

A. Earning the first 65 points in economics has a lower opportunity cost than earning the ten points that moves his score from 90 to 100 in economics.
B. Physics is easier to grasp than economics, so it is the "low-hanging fruit" for Moe.
C. Economics is easier to grasp than physics, so it is the "low-hanging fruit" for Moe.
D. The low-hanging fruit principle applies only to production of goods and services, not to grades.

Moe's bowed-out PPC is consistent with increasing opportunity costs.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

114. Moe divides his time between studying Physics and studying Economics. He has discovered that he can earn grades as shown on this production possibilities curve.



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. infeasible
B. attainable, but only if Moe is efficient
C. efficient
D. attainable, but inefficient

An 80 in both classes lies outside Moe's PPC.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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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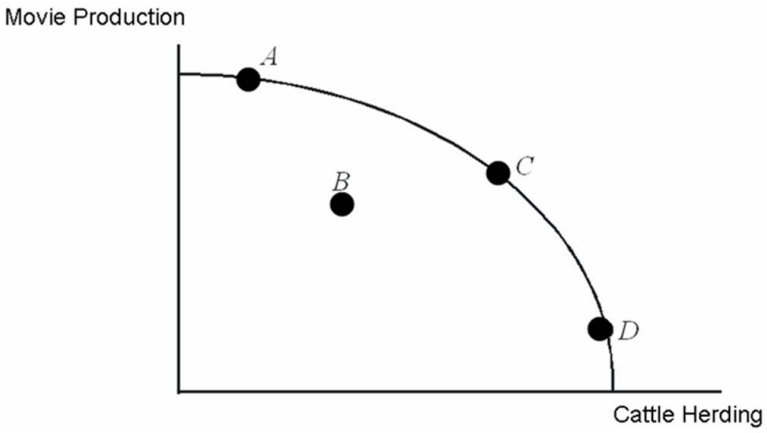
115. 

Refer to the figure above. In the country whose PPC is shown, it must be true that:

A. the resources are better at herding cattle than at making movies.
B. the resources are better at making movies than at herding cattle.
C. some resources are better at herding cattle and some residents are better at making movies.
D. this country has a comparative advantage in cattle herding.

A bowed-out PPC is consistent with increasing opportunity costs. These arise in a many-person economy when people have different comparative advantages.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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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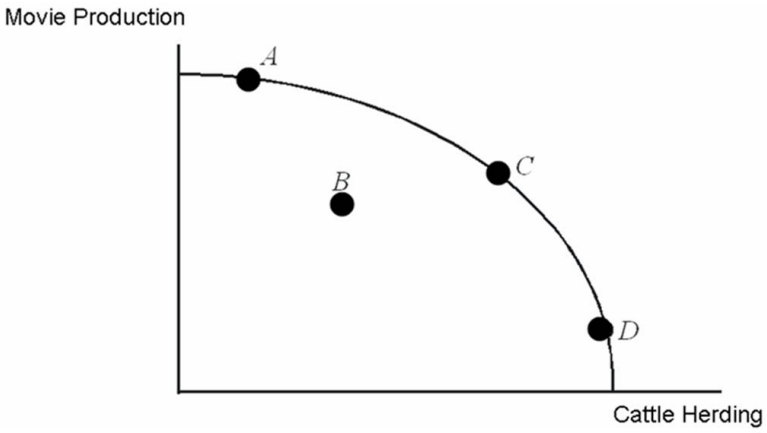
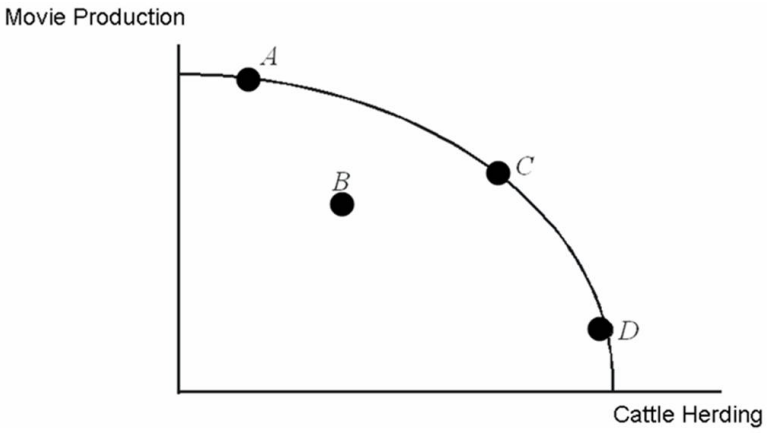
116. 

Refer to the figure above. At Point D:

A. resources that are better suited to making movies than to herding cattle are all being used to make movies.
B. the opportunity cost of herding more cattle is low because the economy is specializing in cattle herding.
C. the opportunity cost of herding more cattle is high because resources that are better suited to movie production are being used to herd cattle.
D. the economy is not operating efficiently.

At Point D almost everyone is herding cattle, and so the opportunity cost to herd more cattle is very high. People who are suited to making movies are herding cattle.

AACSB: Analytic
Blooms: Analyze
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

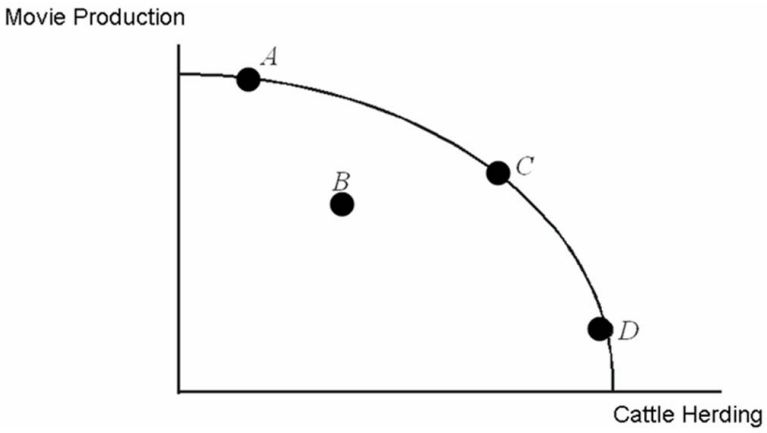
117. 

Refer to the figure above. This economy might be operating at Point B if:

A. technology has made cattle herding obsolete.
B. the low-hanging fruit principle applies.
C. opportunity costs are too high to finance a movie.
D. resources that are best suited for making movies are being used to herd cattle, while resources that are best used for herding cattle are being used to make movies.

Point B is inefficient, lying below the PPC. This implies that resources are not being used in their best ways.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

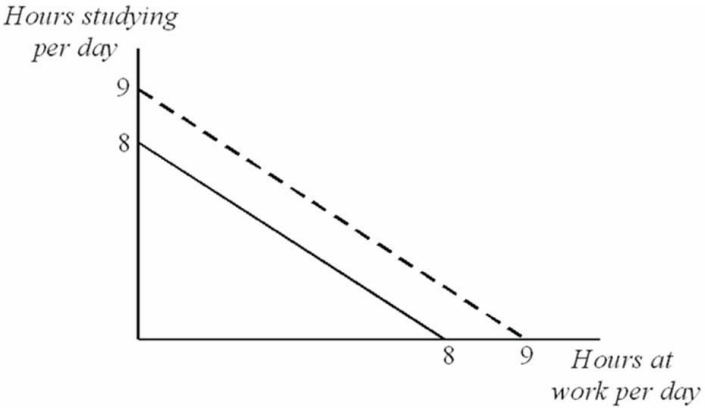
118. 

Refer to the figure above. If this economy were currently operating at Point D, in order to make more movies:

A. the first cattle herders to switch to movie making would be the cattle herders with the greatest comparative advantage in cattle herding.
B. the first cattle herders to switch to movie making would be the cattle herders with the highest opportunity cost of cattle herding.
C. no cattle herders would have to switch because the economy is already efficient.
D. no cattle herders would have to switch because they are specialized in cattle herding, not movie making.

Following the principle of increasing opportunity cost (or low-hanging fruit) the first to switch should be those with the lowest opportunity cost.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and Production Possibilities

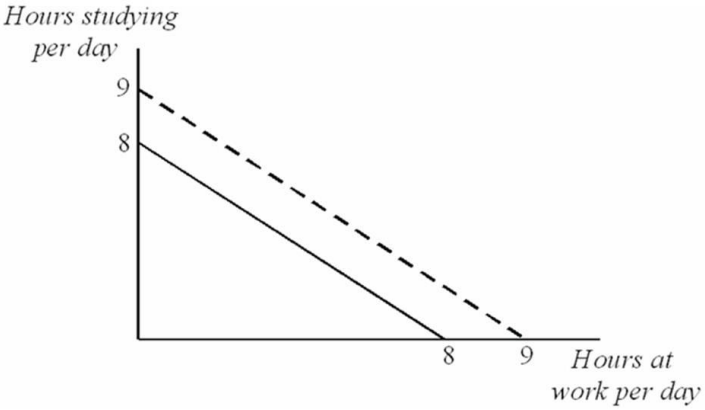
119. 

Refer to the figure above. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity cost of spending one more hour studying:

A. is diminishing with each additional hour.
B. is increasing with each additional hour.
C. is exactly one hour of paid work.
D. is the marginal benefit from studying.

This linear PPC has a slope of -1.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and Production Possibilities

120. 

Refer to the figure above. Sven could move from the bold PPC to the dashed PPC by:

A. finding a job that paid a higher wage.
B. studying fewer hours but more effectively per hour.
C. devoting fewer hours to sleeping and eating.
D. spending more time on the activity for which he has a comparative advantage.

The factor that shifts this PPC is devoting more time to both activities.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

121. 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.

More productive resources will shift the PPC outward.

AACSB: Analytic
Blooms: Understand

Difficulty: 2 Medium
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

122. An existing comparative advantage can be further magnified by specialization because:

A. it eliminates the need to switch from one task to another.
B. repetition results in boredom.
C. a variety of tasks will rise.
D. small tasks will be merged into larger tasks.

Specialization eliminates switching and start-up costs incurred when people move among a variety of tasks.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

123. Which of the following statements is NOT true about specialization?

A. Total economic output is larger due to specialization.
B. After specialization, worker skills are better matched with tasks.
C. Specialization focuses experience and increases comparative advantage.
D. The variety of tasks associated with a particular job grows over time due to specialization.

Specialization reduces variety of tasks.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

124. According to the textbook, the largest factor explaining the variance in the performance of the economies of the world is the:

A. degree of specialization.
B. technological sophistication.
C. location of the country.
D. type of government.

Specialization is the single most important explanation for differences in development.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

125. In the long-run, if the production of all goods increases for a society (there is economic growth), it will cause the production possibility curve to:

A. shift inward.
B. shift outward.
C. first shift inward and then shift outward.
D. stay the same.

With growth, more of both goods can be produced.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

126. Between the U.S. and Nepal, Nepal invests less in new factories and equipment. 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.

Investment in technology and productive resources shift the PPC outward.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

127. Which of the following factors would not contribute to increasing an existing comparative advantage?

A. Productivity improvements from greater experience.
B. Less time lost by switching tasks.
C. Import restrictions.
D. Efficiency improvements due to learning.

Specialization increases productivity through experience and learning on the job and to reduced switching costs.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

128. In general, it is 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.

Specialization reduces variety which some workers enjoy.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

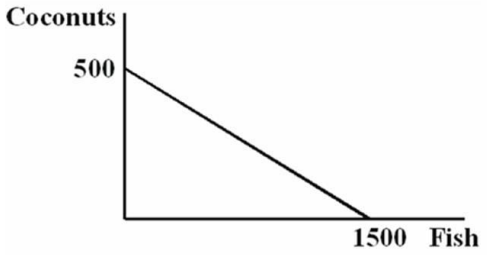
129. Suppose that a further increase in specialization allows a country to increase total output by 10%, but afterward it was discovered that work absenteeism increased by 30%. This is likely an example of:

A. modern production.
B. too much specialization.
C. too little specialization.
D. inefficiencies caused by labor unions.

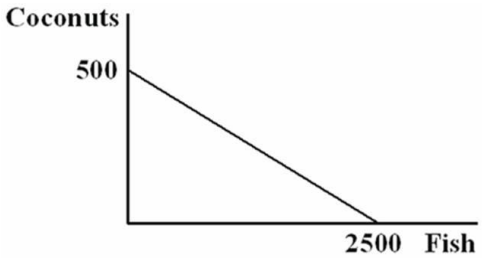
The costs, in terms of absenteeism, outweigh the benefits of growth in output.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Identify factors that shift the menu of production possibilities.
Topic: Factors That Shift the Economy's Production Possibilities Curve

130. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



You are negotiating a deal with a neighboring island that has the following annual PPC:



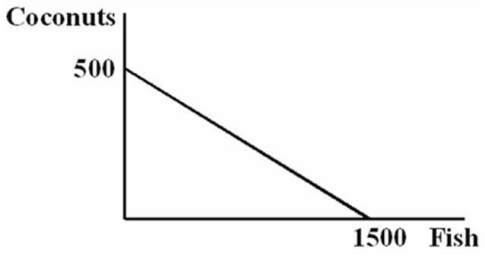
Refer to the figure above. As soon as you see the other island's PPC, you realize:

A. there will be no trade because the other island has the same comparative advantage as yours.
B. there will be no trade because there is no difference in your ability to harvest coconuts.
C. there will be no trade because the other island has an absolute advantage.
D. your island will have to specialize in coconuts if it wants to gain from trade.

Your island gives up fewer fish to harvest the same number of coconuts, so you must have a comparative advantage in coconuts.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and International Trade

131. You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:



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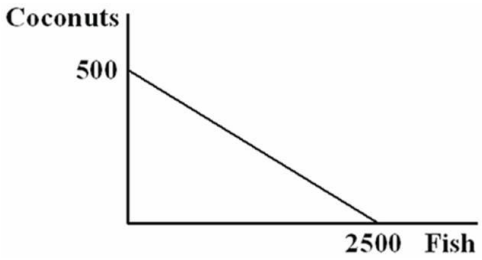

Refer to the figure above. When the other island's delegate offers to give you 1,000 fish in exchange for 500 coconuts, you:

A. accept because you will then have a total of 2,500 fish.
B. refuse because the trade would leave you at a level of consumption that is less than what you could produce on your own.
C. accept because the trade will leave you at a level of consumption that is more than what you could produce on your own.
D. counter, offering to give them 400 coconuts in exchange for 1,000 fish.

Your island can give up harvesting 500 coconuts and get 1,500 fish, so this trade does not make you better off than you are without trade.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and International Trade

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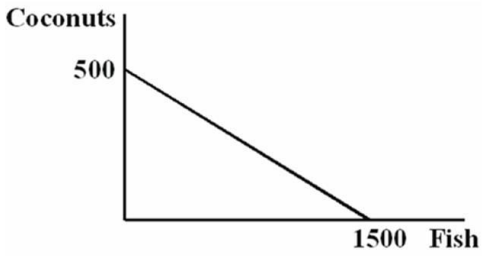

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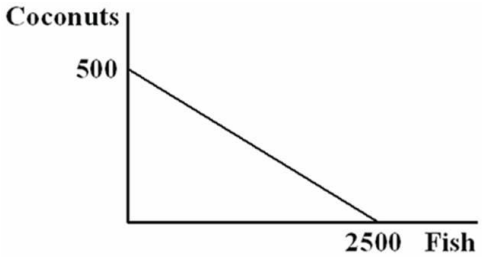

Refer to the figure above. You have arrived with 300 coconuts to trade. The minimum number of fish you would be willing to accept in exchange for those coconuts:

A. is 1,500 fish, because that's how many you can catch without trade.
B. is 1,200 fish, because that is just enough to offset the opportunity cost of harvesting the coconuts.
C. is 301 fish, because anything better than a one-for-one trade benefits your island.
D. is 901 fish, because that is just a little more than the opportunity cost of harvesting the coconuts.

Your opportunity cost of a coconut is 3 fish. In order to be better off after trade, you will have to get more than 3 fish per coconut traded.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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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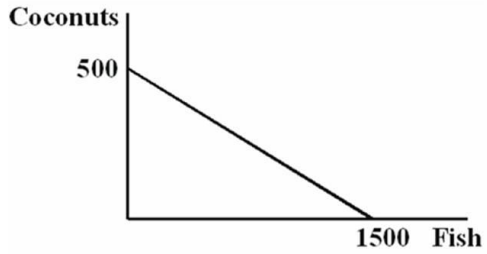

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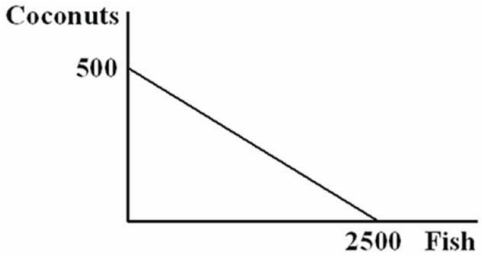

Refer to the figure above. If you offer to give the other island 400 coconuts in exchange for 1,500 fish:

A. they will refuse your offer because it makes them worse off than producing on their own.
B. they will accept your offer because it keeps them on their original PPC, and so is efficient.
C. they will accept your offer because it gives them 800 coconuts, which is more than they can make on their own.
D. they will accept your offer because it allows them to consume a combination of fish and coconuts that would be unattainable on their own.

Their opportunity cost of a coconut is 5 fish. By giving them more than 300 coconuts in exchange for 1500 fish, you make them better off than they would be without trade.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more

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Topic: Comparative Advantage and International Trade

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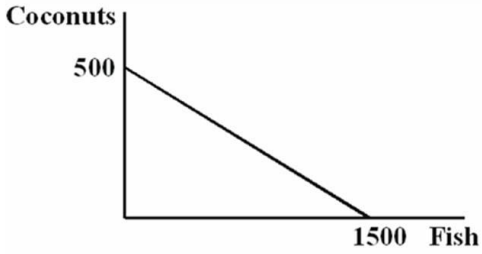

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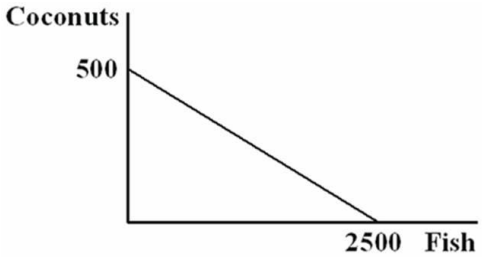

Refer to the figure above. Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to sell the other island 350 coconuts in exchange for 1,300 fish. After the trade your island has a total of _____ coconuts and _____ fish.

A. 150; 2,800
B. 500; 1,300
C. 150; 1,300
D. 500; 1,500

By specializing, your island produced 500 coconuts and no fish. Trade left you with 350 fewer coconuts and 1,300 fish.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-04 Explain the role of comparative advantage in international trade and describe why some jobs are more

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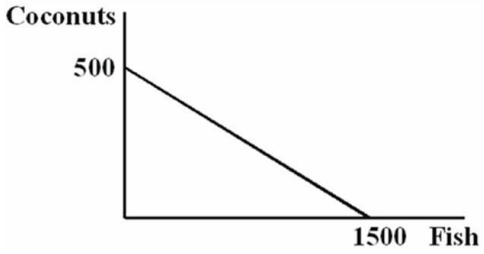

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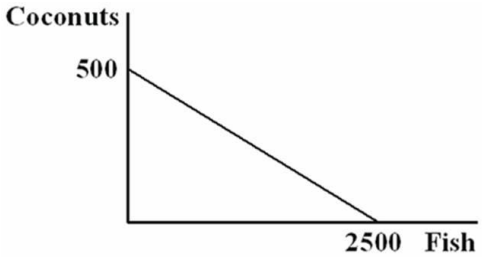

Refer to the figure above. Both islands specialize exclusively in the product for which they have a comparative advantage. You have agreed to sell the other island 350 coconuts in exchange for 1,300 fish. After the trade the other island has a total of _____ coconuts and _____ fish.

A. 850; 1,200
B. 500; 1,200
C. 350; 1,500
D. 350; 1,200

By specializing, the other island produced no coconuts and 2,500 fish. Trade left them with 350 coconuts and 1,300 fewer fish.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and International Trade

136. Large developed countries can produce more of practically everything than can small, less developed countries. Which of the following statements is true?

A. The large country has no incentive to trade with the smaller country.
B. It would be impossible for the smaller country to have a comparative advantage in making any products that the larger country wants to buy.
C. Trade will benefit both countries if each country has a comparative advantage in a traded product.
D. Trade between the countries is more likely to benefit the small country and harm the larger country.

Benefits from trade stem from differences in comparative advantage, not differences in absolute advantage.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and International Trade

137. The _____ the difference between domestic opportunity costs and international opportunity costs, the _____ the potential benefits of trading with other countries.

A. smaller; greater
B. greater; greater
C. greater; smaller
D. larger; more insignificant

Greater difference in opportunity costs yields greater benefits from trade.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium

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.
Topic: Comparative Advantage and International Trade

138. The key to resolving the apparent paradox of international trade increasing total output yet facing much political opposition is noting that:

A. economists are mistaken about the increase in output.
B. only the wealthy benefit from trade.
C. no one benefits from trade.
D. everyone does not benefit equally from trade.

Example 2.3 in the text describes the difference between general benefits of trade and individual costs.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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.
Topic: Comparative Advantage and International Trade

139. The political concern expressed about the North American Free Trade Agreement (NAFTA) was that:

A. prices to U.S. consumers would fall.
B. wages in Mexico would rise.
C. highly skilled workers in the United States would lose their jobs.
D. unskilled workers in the United States would lose their jobs.

Example 2.3 in the text describes the difference between general benefits of trade and individual costs to unskilled workers.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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vulnerable to outsourcing than others.
Topic: Comparative Advantage and International Trade

140. When a government increases the cost of international trade, it is:

A. helping domestic consumers.
B. hurting all domestic producers.
C. reducing the total amount of output available to domestic consumers.
D. keeping all domestic prices artificially low.

Restricting trade eliminates beneficial trade.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and International Trade

141. The benefits to specialization are enhanced when two trading partners have:

A. absolute advantages in producing the same goods.
B. similar consumption preferences.
C. very similar opportunity costs.
D. large comparative advantages in different goods.

Greater difference in opportunity costs yields greater benefits from trade.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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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142. 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 reduced the employment of unskilled workers in the United States.

Example 2.3 in the text describes the lack of job loss attributable to NAFTA.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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143. NAFTA helped _____ to exploit a comparative advantage in the production of goods made by unskilled labor.

A. Canada
B. Cuba
C. Mexico
D. The USA

Example 2.3 in the text states that NAFTA was expected to allow Mexico to exploit its comparative advantage in production of goods made by unskilled labor.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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144. It was expected that consumers in _____ would benefit from reduced prices of goods that will be freely traded under the NAFTA.

A. Canada
B. the United States
C. China
D. Mexico

Example 2.3 in the text states that NAFTA was expected to reduce prices for consumer goods in the United States.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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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145. When U.S. companies open offices in Asia and hire workers there, it is evidence that:

A. workers in Asian countries have an absolute advantage over American workers.
B. workers in Asian countries have a comparative advantage over American workers.
C. American workers have already picked all of the low-hanging fruit in the US, forcing companies to look elsewhere.
D. all of the resources with low opportunity costs have been depleted.

Companies will outsource if they can produce more cheaply overseas.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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.
Topic: Comparative Advantage and International Trade

146. When journalists write about outsourcing, they are referring to:

A. firms that hire illegal immigrants at wages less than the minimum wage.
B. firms that import raw materials in order to produce more cheaply in the United States.
C. exports.
D. firms that hire low-wage workers in other countries to perform some of their work.

Outsourcing has come to mean replacing highly paid American workers with cheaper workers overseas.

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy
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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147. The main reason that firms outsource is that:

A. low-wage workers in other countries are more productive than are U.S. workers.
B. hiring low-wage workers reduces firms' costs.
C. hiring low-wage workers provides a tax deduction to firms.
D. U.S. workers cannot perform the tasks performed by workers in other countries.

Companies will outsource if they can produce more cheaply overseas.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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148. When firms engage in outsourcing, _____ benefit and _____ are harmed.

A. the firms; consumers
B. consumers; the firms
C. consumers; the firm's domestic employees
D. the firms; the firms' foreign employees

Consumers enjoy lower prices, but domestic workers may lose their jobs.

AACSB: Analytic
Blooms: Apply
Difficulty: 3 Hard
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.
Topic: Comparative Advantage and International Trade

149. A job is most likely to be outsourced if it:

A. involves face-to-face contact.
B. cannot be done by a computer.
C. does not require complex communication.
D. does not require use of computers or other technology.

Some jobs are more easily sent overseas, including those that do not require face-to-face contact or complex communication.

AACSB: Analytic
Blooms: Understand
Difficulty: 2 Medium
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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150. 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

Flipping hamburgers requires on-site labor.

AACSB: Analytic
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