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| 1. A simplified representation of a real situation that is used to better understand real-life situations is called a(n):   |  |  |  | | --- | --- | --- | |  | a. | model. | |  | b. | production possibility frontier. | |  | c. | assumption. | |  | d. | trade-off. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 2. The models that economists construct:   |  |  |  | | --- | --- | --- | |  | a. | allow us to understand a variety of economic issues through representations of economic reality based on simplifying assumptions. | |  | b. | often rely on physical constructs, such as those used by architects. | |  | c. | rarely use mathematical equations or graphs to accurately represent the world at large. | |  | d. | rely on government funding to precisely replicate the real world. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 3. Which of the following is NOT a common practice of economists in constructing models?   |  |  |  | | --- | --- | --- | |  | a. | simulating the workings of the economy on a computer | |  | b. | utilizing physical constructs, such as those of architects, to represent economic relationships | |  | c. | creating abstract representations of the economy through simplifying assumptions | |  | d. | heavy reliance on plain language expositions of their ideas rather than mathematical equations and graphs |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 4. In building an economic model, economists:   |  |  |  | | --- | --- | --- | |  | a. | simplify reality to highlight important relationships between variables. | |  | b. | attempt to replicate reality in as much detail is possible. | |  | c. | ignore empirical facts, instead basing their assumptions on theory. | |  | d. | shun the scientific method. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 5. Models are useful because they enable economists to:   |  |  |  | | --- | --- | --- | |  | a. | limit their analyses to variables that are directly related. | |  | b. | represent the real world in all its detail. | |  | c. | create ideal worlds that embody an economist’s utopian vision. | |  | d. | emphasize basic relationships by abstracting from the complexities of everyday life. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 6. Economic models are:   |  |  |  | | --- | --- | --- | |  | a. | set up and used to precisely mirror reality. | |  | b. | useless if they are simple. | |  | c. | generally made of wood, plastic, and/or metal. | |  | d. | potentially useful in informing economic policy. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 7. The importance of an economic model is that it allows us to:   |  |  |  | | --- | --- | --- | |  | a. | build an accurate model of how the economy should work. | |  | b. | build an accurate mathematical model to simulate the workings of the entire economy. | |  | c. | focus on the effects of only one change at a time. | |  | d. | ensure that opportunity costs are maintained on a larger scale. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 8. In constructing a model, economists:   |  |  |  | | --- | --- | --- | |  | a. | might use a computer simulation. | |  | b. | create a simplified version of the economy. | |  | c. | focus on the effects of only one change at a time. | |  | d. | all of the above. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 9. An economic model:   |  |  |  | | --- | --- | --- | |  | a. | is useful in explaining past, present, and future economic outcomes. | |  | b. | often leads to faulty conclusions because of the “all things equal” assumption. | |  | c. | allows nothing to change in the economic situation that is being described. | |  | d. | is a simplified version of reality used to understand real-world economic conditions. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 10. It would be impossible to do an experiment that involved raising the minimum wage across the country and seeing what happens. Instead, economists will observe the effects of a smaller economy that is raising its minimum wage (like New York City in 2019) and then extrapolate those results to the larger U.S. economy. This preceding statement embodies the ideology inherent in:   |  |  |  | | --- | --- | --- | |  | a. | an economic model. | |  | b. | the Department of Labor laws surrounding minimum wage legislation. | |  | c. | the breakup of the European Union resulting from Brexit. | |  | d. | faulty economic modelling. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 11. The production possibility frontier illustrates that:   |  |  |  | | --- | --- | --- | |  | a. | the economy will move to full employment, given enough time. | |  | b. | an economy’s productive capacity increases at a fixed proportion relative to population. | |  | c. | in a two-good economy at maximum capacity, more of one good can be produced only if less of the other good is produced. | |  | d. | economic production possibilities are only limited by wants. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 12. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces two planes per period, it can also produce, at most, \_\_\_\_\_ trains per period.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 30 | |  | b. | 28 | |  | c. | 24 | |  | d. | 18 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 13. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 10 trains per period, it also can produce, at most, \_\_\_\_\_ planes per period.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 5 | |  | b. | 4 | |  | c. | 3 | |  | d. | 2 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 14. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the fourth plane is \_\_\_\_\_ trains.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 2 | |  | b. | 4 | |  | c. | 6 | |  | d. | 8 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 15. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 4 planes per period, it also can produce, at most, \_\_\_\_\_ trains per period.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 30 | |  | b. | 28 | |  | c. | 10 | |  | d. | 18 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 16. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 24 trains per period, it also can produce, at most, \_\_\_\_\_ planes per period.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 5 | |  | b. | 4 | |  | c. | 3 | |  | d. | 2 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 17. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the third plane is \_\_\_\_\_ trains.   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule I** | | | | | | | | | **Alternatives** | | ***A*** | ***B*** | ***C*** | ***D*** | ***E*** | ***F*** | | Planes Produced |  | 0 | 1 | 2 | 3 | 4 | 5 | | Trains Produced |  | 30 | 28 | 24 | 18 | 10 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 2 | |  | b. | 4 | |  | c. | 6 | |  | d. | 8 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 18. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. On this figure, points A, B, E, and F indicate:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | combinations of dreamliners and small jets that society can produce, using all of its factors efficiently. | |  | b. | increasing opportunity costs for dreamliners but decreasing opportunity costs for small jets. | |  | c. | that society wants small jets more than it wants dreamliners. | |  | d. | constant opportunity costs for dreamliners and increasing opportunity costs for small jets.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 19. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. This production possibility frontier is:  ​   |  |  |  | | --- | --- | --- | |  | a. | bowed out because of increasing opportunity costs. | |  | b. | bowed in because of increasing opportunity costs. | |  | c. | bowed in because of constant costs of dreamliners and small jets. | |  | d. | linear because of constant costs of dreamliners and small jets.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 20. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. If the economy is operating at point *B,* producing 16 dreamliners and 12 small jets per period, a decision to move to point *E* and produce 18 of small jets:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | indicates that you can have more small jets and dreamliners simultaneously. | |  | b. | makes it clear that this economy has decreasing opportunity costs. | |  | c. | necessitates a loss of 8 dreamliners per period. | |  | d. | necessitates a loss of 4 dreamliners per period.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 21. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. The combination of dreamliners and small jets at point *H:*  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | can be attained but would cost too much. | |  | b. | cannot be attained, given the level of technology and the factors of production available. | |  | c. | has no meaning, since it does not relate to the preferences of consumers. | |  | d. | is attainable but would increase unemployment.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 22. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. Suppose the economy produced 8 dreamliners and 12 small jets per period. Given that, which statement is TRUE?  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | This is a possible choice, but it is inefficient. | |  | b. | This combination invalidates the notion of increasing opportunity cost. | |  | c. | The economy is still efficient but does not buy as much as it could. | |  | d. | Something must be done to reduce the amount of employment.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 23. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. Suppose the economy produced 8 dreamliners and 12 small jets per period. Given that, which statement is FALSE?  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | This is a possible choice, but it is inefficient. | |  | b. | More dreamliners could be produced at zero opportunity cost. | |  | c. | The economy is still efficient but does not buy as much as it could. | |  | d. | More small jets could be produced at zero opportunity cost.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 24. If an economy has to sacrifice only one unit of cheese for each unit of yogurt produced throughout the relevant range, then its production possibility frontier has a(n):   |  |  |  | | --- | --- | --- | |  | a. | zero slope. | |  | b. | constant negative slope. | |  | c. | increasing negative slope. | |  | d. | decreasing negative slope. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 25. A production possibility frontier that is a straight line sloping down from left to right suggests that:   |  |  |  | | --- | --- | --- | |  | a. | more of both goods could be produced by moving along the frontier. | |  | b. | the two products must have increasing opportunity costs. | |  | c. | the rate at which one good is given up to get more of the other good is constant. | |  | d. | opportunity costs are not relevant in this situation. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 26. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy is producing at alternative C, the opportunity cost of producing at D instead of C is \_\_\_\_\_ cell phones per period.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 0 | |  | b. | 6 | |  | c. | 8 | |  | d. | 14 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 27. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at alternative *B*, the opportunity cost of producing at *C* is \_\_\_\_\_ cell phones per period.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 0 | |  | b. | 1 | |  | c. | 4 | |  | d. | 18 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 28. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 14 cell phones and 1 computer per period would result in:   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | full employment. | |  | b. | no unused resources. | |  | c. | some unused or inefficiently used resources. | |  | d. | an increase in economic growth. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 29. In moving along a production possibility frontier, the opportunity cost to society of getting more of one good:   |  |  |  | | --- | --- | --- | |  | a. | is always constant when there are only two goods. | |  | b. | is measured by the price of the good. | |  | c. | is measured by the amount of the other good that must be given up. | |  | d. | usually decreases, but we are not sure; it depends on where we are on the production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 30. If an economy must sacrifice increasing amounts of cheese for each additional unit of yogurt produced, then its production possibility frontier is:   |  |  |  | | --- | --- | --- | |  | a. | bowed out. | |  | b. | bowed in. | |  | c. | a straight line. | |  | d. | a vertical line. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 31. The fact that a society’s production possibility frontier is bowed out from the origin demonstrates the law of \_\_\_\_\_ opportunity cost.   |  |  |  | | --- | --- | --- | |  | a. | increasing | |  | b. | decreasing | |  | c. | constant | |  | d. | concave |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 32. Because not all factors of production are suited to producing all goods and services, we generally see:   |  |  |  | | --- | --- | --- | |  | a. | economic growth. | |  | b. | technical efficiency. | |  | c. | the underuse of resources. | |  | d. | the law of increasing opportunity cost. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 33. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. Suppose the economy is operating at point *G.* This implies that:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | the economy can move to a point such as *C* only if it improves its technology. | |  | b. | the economy has unemployment and/or inefficiently allocates resources. | |  | c. | the economy lacks the resources to achieve a combination such as *C.* | |  | d. | people in this economy don’t really like computers or speedboats.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 34. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. As the economy moves from point *A* toward point *D,* it will find that the opportunity cost of each additional speedboat:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | falls. | |  | b. | rises. | |  | c. | remains unchanged. | |  | d. | doubles.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 35. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. Suppose the economy now operates at point *C.* Moving to point *E* would require that the economy:  ​   |  |  |  | | --- | --- | --- | |  | a. | achieve full employment and an efficient allocation of resources. | |  | b. | eliminate its production of computers. | |  | c. | reduce its production of speedboats. | |  | d. | improve its technology or increase its quantities of factors of production.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 36. If an economy is producing a level of output that is on its production possibility frontier, the economy has:   |  |  |  | | --- | --- | --- | |  | a. | unemployment. | |  | b. | unemployment but is still using resources efficiently. | |  | c. | no unemployment but is still using resources inefficiently. | |  | d. | no unemployment and is using resources efficiently. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 37. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. The movement from production possibility frontier 1 (PPF1) to production possibility frontier 2 (PPF2) indicates:  ​   |  |  |  | | --- | --- | --- | |  | a. | economic growth. | |  | b. | a change from unemployment to full employment. | |  | c. | a decrease in the level of technology. | |  | d. | instability.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 38. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Assume the economy’s current production possibility frontier is given by PPF1. Point *Z*:    ​   |  |  |  | | --- | --- | --- | |  | a. | is attainable, given current resources. | |  | b. | is attainable if the economy can reach full employment. | |  | c. | is attainable if the quantity and/or quality of factors decreases. | |  | d. | is attainable through significant economic growth.  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 39. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Assume the economy’s current production possibility frontier is given by PPF1. Point *Z*:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | is unattainable, all other things unchanged. | |  | b. | is attainable if the economy can reach full employment. | |  | c. | is attainable if the quantity and/or quality of factors decreases. | |  | d. | will be attained when the economy becomes efficient and moves to curve 2.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 40. In a situation in which there are technological improvements, we generally see:   |  |  |  | | --- | --- | --- | |  | a. | the production possibility frontier unchanged. | |  | b. | a shift in the production possibility frontier inward. | |  | c. | a shift in the production possibility frontier outward. | |  | d. | a transition to increased unemployment. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 41. A two-dimensional production possibility frontier illustrates the \_\_\_\_\_ facing an economy that \_\_\_\_\_ only two goods.   |  |  |  | | --- | --- | --- | |  | a. | prices; sells | |  | b. | trade-offs; produces | |  | c. | trade-offs; sells | |  | d. | shortages; produces |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 42. Suppose Texas decides to produce only two goods, salsa and cowboy hats. If Texas is producing on its production possibility frontier, as salsa production increases, the production of cowboy hats will:   |  |  |  | | --- | --- | --- | |  | a. | increase at an increasing rate. | |  | b. | remain unchanged. | |  | c. | decrease at a necessarily decreasing rate. | |  | d. | decrease at some rate. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 43. One of the controversies surrounding the United States’ automobile markets concerns the trade-off between automobile production and clean air. Assuming clean air has value, the United States will be on its production possibility frontier if and only if:   |  |  |  | | --- | --- | --- | |  | a. | resources used to produce clean air and automobiles are not being fully used. | |  | b. | pollution is eliminated. | |  | c. | the price of automobiles is relatively low. | |  | d. | resources used to produce clean air and automobiles are being fully used. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 44. Suppose the economy of New Caledonia is producing at a point on its production possibility frontier. If this is the case, it is:   |  |  |  | | --- | --- | --- | |  | a. | efficient in production and allocation. | |  | b. | efficient in production but not necessarily in allocation. | |  | c. | efficient in allocation but not necessarily in production. | |  | d. | not necessarily efficient in production or allocation. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 45. Consider a production possibility frontier for England. If in 2020, England’s resources are not being fully utilized, England will be somewhere \_\_\_\_\_ its production possibility frontier.   |  |  |  | | --- | --- | --- | |  | a. | inside | |  | b. | outside | |  | c. | near the bottom of | |  | d. | near the top of |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 46. All points inside the production possibility frontier represent:   |  |  |  | | --- | --- | --- | |  | a. | efficient production points that economies strive to reach. | |  | b. | inefficient production points that are attainable without added opportunity costs. | |  | c. | infeasible production points that can, however, be attained through economic growth. | |  | d. | production points that the economy will eventually reach through economic growth. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 47. All points on the production possibility frontier are:   |  |  |  | | --- | --- | --- | |  | a. | efficient. | |  | b. | inefficient. | |  | c. | infeasible. | |  | d. | regions of economic growth. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 48. All points outside the production possibility frontier are:   |  |  |  | | --- | --- | --- | |  | a. | efficient. | |  | b. | inefficient. | |  | c. | infeasible. | |  | d. | regions of economic growth. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 49. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. If Caffeineland produced 10 million doughnuts and 10 million cups of tea (point *A*), we know that the economy:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | is using its resources efficiently. | |  | b. | is using its resources inefficiently. | |  | c. | is fully employing its resources. | |  | d. | has found new resources.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 50. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. Caffeineland is producing at point *C* on its production possibility frontier. What is the opportunity cost of increasing the production of coffee from 20 million cups to 30 million cups?  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | 10 million cups of tea | |  | b. | 5 million doughnuts | |  | c. | 10 million doughnuts | |  | d. | The answer is impossible to determine from the information given.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 51. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. Assuming no international trade, Caffeineland can produce at point *E* only if:   |  |  |  | | --- | --- | --- | |  | a. | the government eliminates unemployment. | |  | b. | the government raises taxes. | |  | c. | the country experiences economic growth. | |  | d. | a decrease in the use of technology increases the cost of production.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 52. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. Caffeineland can move from point C to point D at a cost of:  ​   |  |  |  | | --- | --- | --- | |  | a. | 10 million doughnuts. | |  | b. | 5 million doughnuts. | |  | c. | 10 million cups of coffee. | |  | d. | Such a move is not possible, given the current resources available.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 53. The production possibility frontier is bowed out because:   |  |  |  | | --- | --- | --- | |  | a. | the resources that are available are not equally suited for all types of production. | |  | b. | resources are scarce, so they cost more. | |  | c. | economic growth leads to inefficiency. | |  | d. | while resources have many uses, the current combination of resources is inefficient. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 54. The opportunity cost of producing a good:   |  |  |  | | --- | --- | --- | |  | a. | is the price of a good in the market. | |  | b. | is what you give up to produce the good. | |  | c. | increases as production decreases. | |  | d. | is the amount of the good that you gain in production. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 55. Suppose Canada is producing on its production possibility frontier, and it decides to increase the production of aluminum and decrease the production of iced wine. The bowed-out production possibility frontier suggests a(n) \_\_\_\_\_ opportunity cost of steel.   |  |  |  | | --- | --- | --- | |  | a. | increasing | |  | b. | decreasing | |  | c. | nonexistent | |  | d. | unchanging |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 56. When economists assume that production is subject to increasing opportunity costs, it is because:   |  |  |  | | --- | --- | --- | |  | a. | lower production usually results in unemployment. | |  | b. | not all resources are equally suited to producing every good. | |  | c. | given scarcity, individuals constantly desire more opportunities to make themselves better off. | |  | d. | if production is efficient, it is not possible to increase the production of all goods simultaneously. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 57. The production possibility frontier will shift outward because of:   |  |  |  | | --- | --- | --- | |  | a. | a decrease in the labor force. | |  | b. | a more equitable income distribution. | |  | c. | better technology that improves worker productivity. | |  | d. | a decrease in the unemployment rate. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 58. The production possibility frontier will shift inward because of:   |  |  |  | | --- | --- | --- | |  | a. | a decrease in the labor force. | |  | b. | an increase in infrastructure spending. | |  | c. | better technology that improves worker productivity. | |  | d. | an increase in the unemployment rate. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 59. Which of the following will NOT cause the production possibility frontier to shift outward?   |  |  |  | | --- | --- | --- | |  | a. | growth of the labor force | |  | b. | an increase in infrastructure spending | |  | c. | better technology that improves worker productivity | |  | d. | an increase in the unemployment rate |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 60. In terms of the production possibility frontier, an inefficient use of available resources is shown by:   |  |  |  | | --- | --- | --- | |  | a. | an increase in the labor force growth rate. | |  | b. | a movement along the production possibility frontier. | |  | c. | an inward shift of the production possibility frontier. | |  | d. | production at a point inside the production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 61. The production possibility frontier will shift outward due to a(n):   |  |  |  | | --- | --- | --- | |  | a. | increase in the unemployment rate. | |  | b. | decrease in the labor force. | |  | c. | improvement in technology. | |  | d. | decrease in worker productivity. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 62. The effect of a decrease in productive inputs such as labor and capital can be shown by a(n):   |  |  |  | | --- | --- | --- | |  | a. | movement to a point on the production possibility frontier. | |  | b. | outward shift of the production possibility frontier. | |  | c. | movement from one point to another along the production possibility frontier. | |  | d. | inward shift of the production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 63. The effect of an earthquake in California can be shown by a(n) \_\_\_\_\_ the production possibility frontier of California.   |  |  |  | | --- | --- | --- | |  | a. | point inside of | |  | b. | outward shift of | |  | c. | movement from one point to another along | |  | d. | inward shift of |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 64. An inward shift of the U.S. economy’s production possibility frontier could represent:   |  |  |  | | --- | --- | --- | |  | a. | U.S. workers moving to Mexico. | |  | b. | workers moving from Illinois to New York. | |  | c. | U.S. economic growth. | |  | d. | a change in the amount of labor and capital used in production. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 65. An outward shift of the U.S. economy’s production possibility frontier could represent:   |  |  |  | | --- | --- | --- | |  | a. | U.S. workers moving to Canada. | |  | b. | workers moving from Illinois to New York. | |  | c. | U.S. economic growth. | |  | d. | a change in the amount of labor and capital used in production. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 66. If the production possibility frontier is a straight line:   |  |  |  | | --- | --- | --- | |  | a. | opportunity costs are constant. | |  | b. | firms face increasing costs. | |  | c. | firms face decreasing costs. | |  | d. | there is no trade-off between the two goods represented. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 67. If the rate at which goods can be substituted in production is constant (say, each time you produce three more chairs, you have to produce two fewer tables), then the production possibility frontier exhibits:   |  |  |  | | --- | --- | --- | |  | a. | constant opportunity costs. | |  | b. | increasing opportunity costs. | |  | c. | decreasing opportunity costs. | |  | d. | no trade-off between the two goods represented. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 68. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. Which point or points represent(s) a combination of bananas and pineapples that is efficient in production?  ​   |  |  |  | | --- | --- | --- | |  | a. | *A* only | |  | b. | *A* and *B* | |  | c. | *B* and *C* | |  | d. | *D* only  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 69. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. Which point or points represent(s) an inefficient combination of bananas and pineapples?  ​   |  |  |  | | --- | --- | --- | |  | a. | *A* only | |  | b. | *A* and *B* | |  | c. | *C* only | |  | d. | *B* and *D*  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 70. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. Which point or points represent(s) an infeasible combination of bananas and pineapples?  ​   |  |  |  | | --- | --- | --- | |  | a. | *A* only | |  | b. | *A* and *B* | |  | c. | *B* and *C* | |  | d. | *D* only  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 71. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. Which point or points represent(s) a feasible combination of bananas and pineapples?  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | *A* only | |  | b. | *A* and *B* | |  | c. | *A,* *B,* and *C* | |  | d. | *D* only  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 72. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. The opportunity cost for Savannah in moving from point *A* on the curve to point *B* is:    ​   |  |  |  | | --- | --- | --- | |  | a. | 10 bananas. | |  | b. | 10 pineapples. | |  | c. | 5 bananas. | |  | d. | 5 pineapples.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 73. (Figure: Savannah's Production Possibilities) Use Figure: Savannah[‘s Production Possibilities. The opportunity cost for Savannah in moving from point *B* on the curve to point *A* is:  ​   |  |  |  | | --- | --- | --- | |  | a. | 10 bananas. | |  | b. | 10 pineapples. | |  | c. | 5 bananas. | |  | d. | 5 pineapples.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 74. (Figure: Savannah's Production Possibilities) Use Figure: Savannah’s Production Possibilities. The opportunity cost for Savannah in moving from point *C* on the curve to point *A* is:  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | 10 bananas. | |  | b. | 30 pineapples. | |  | c. | 5 bananas. | |  | d. | There is no opportunity cost.  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 75. The \_\_\_\_\_ illustrates the trade-offs facing an economy that produces only two goods.   |  |  |  | | --- | --- | --- | |  | a. | production possibility frontier | |  | b. | circular-flow diagram | |  | c. | all else equal assumption | |  | d. | income distribution |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 76. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. If the individual decides to consume one additional hour of play time, how many hours of work time must she give up?   |  |  | | --- | --- | | **Table: Trade-off of Hours Worked and Hours Played** | | | **Quantity of Hours of Work Time** | **Quantity of Hours of Play Time** | | 16 | 0 | | 12 | 4 | | 8 | 8 | | 4 | 12 | | 0 | 16 |  |  |  |  | | --- | --- | --- | |  | a. | 4 | |  | b. | 0.25 | |  | c. | 1 | |  | d. | 16 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 77. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. Suppose the individual works 4 hours and plays 10 hours. This point is:   |  |  | | --- | --- | | **Table: Trade-off of Hours Worked and Hours Played** | | | **Quantity of Hours of Work Time** | **Quantity of Hours of Play Time** | | 16 | 0 | | 12 | 4 | | 8 | 8 | | 4 | 12 | | 0 | 16 |  |  |  |  | | --- | --- | --- | |  | a. | outside the production possibility frontier. | |  | b. | inside the production possibility frontier. | |  | c. | on the production possibility frontier. | |  | d. | both efficient and feasible. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 78. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. Suppose the individual completes a training workshop that allows him to do the same amount of work in half as many hours. His opportunity cost:   |  |  | | --- | --- | | **Table: Trade-off of Hours Worked and Hours Played** | | | **Quantity of Hours of Work Time** | **Quantity of Hours of Play Time** | | 16 | 0 | | 12 | 4 | | 8 | 8 | | 4 | 12 | | 0 | 16 |  |  |  |  | | --- | --- | --- | |  | a. | of play time has increased. | |  | b. | of work time has increased. | |  | c. | of play time has decreased. | |  | d. | has not changed. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 79. Suppose the economy consists of two goods, cheese and yogurt. If the production possibility frontier is a straight line, it tells us that the opportunity cost of producing one more unit of cheese is:   |  |  |  | | --- | --- | --- | |  | a. | an increasing amount of yogurt. | |  | b. | a decreasing amount of yogurt. | |  | c. | equal to the inverse of the amount of yogurt. | |  | d. | a constant amount of yogurt. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 80. Suppose Pennsylvania produces only steel and barley, with fixed amounts of land, labor, and capital resources. Which scenario BEST sets the stage for economic growth?   |  |  |  | | --- | --- | --- | |  | a. | The unemployment rate in Pennsylvania rises from 5% to 6%. | |  | b. | The state experiences a devastating drought. | |  | c. | The percentage of Pennsylvania residents with a university degree rises from 15% to 23%. | |  | d. | The United States imports more and more low-cost steel from Canada. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 81. The production possibility frontier (PPF) illustrates:   |  |  |  | | --- | --- | --- | |  | a. | the maximum quantity of one good that can be produced, given the quantity of the other good produced. | |  | b. | that, when markets don’t achieve efficiency, government intervention can improve society’s welfare. | |  | c. | the inverse relationship that exists between price and quantity. | |  | d. | that people usually exploit opportunities to make themselves better off. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 82. (Figure: Apple cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing 12 tons of soybeans and 9,000 bottles of apple cider, we know that the economy:  ​   |  |  |  | | --- | --- | --- | |  | a. | is using its resources efficiently. | |  | b. | is using its resources inefficiently. | |  | c. | is producing at an unattainable point. | |  | d. | has unemployment.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 83. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing at point *A*, we know the economy is:  ​   |  |  |  | | --- | --- | --- | |  | a. | using its resources efficiently. | |  | b. | using its resources inefficiently. | |  | c. | producing at an unattainable point. | |  | d. | trading with another country.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 84. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing at point *A* and wants to produce at point *B*, it must:  ​   |  |  |  | | --- | --- | --- | |  | a. | trade with another country. | |  | b. | increase its resources. | |  | c. | decrease production. | |  | d. | use its existing resources more efficiently, as opportunity costs are zero.  ​  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 85. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. The opportunity cost of moving from producing ONLY soybeans to producing ONLY apple cider is \_\_\_\_\_ tons of soybeans.  ​   |  |  |  | | --- | --- | --- | |  | a. | 3 | |  | b. | 6 | |  | c. | 9 | |  | d. | 15  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 86. (Figure: Apple cider and Soybeans) Use Figure: Apple cider and Soybeans. The opportunity cost of moving from producing ONLY soybeans to producing at point *D* is \_\_\_\_\_ tons of soybeans.  ​   |  |  |  | | --- | --- | --- | |  | a. | 3 | |  | b. | 6 | |  | c. | 9 | |  | d. | 15  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 87. (Figure: Apple cider and Soybeans) Use Figure: Apple cider and Soybeans. If this economy is producing on the production possibility frontier, what would allow it to produce at point *C*?  ​   |  |  |  | | --- | --- | --- | |  | a. | an improvement in technology | |  | b. | a decrease in resources | |  | c. | a decrease in production | |  | d. | policies expanding social programs for seniors  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 88. The production possibility frontier for the United States would \_\_\_\_\_ if all Apple computers contracted a virus that corrupted all information on those computers.   |  |  |  | | --- | --- | --- | |  | a. | shift inward | |  | b. | shift outward | |  | c. | not change | |  | d. | The answer cannot be determined from the information provided. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 89. The production possibility frontier for the United States will \_\_\_\_\_ if the labor force grows as a result of new immigrants into the country.   |  |  |  | | --- | --- | --- | |  | a. | shift inward | |  | b. | shift outward | |  | c. | not change | |  | d. | The answer cannot be determined from the information provided. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 90. Natasha, the proprietor of Natasha’s Kitchen in the East Village, could bake 10 cakes or mix 50 loaves of bread in one day. Now that Natasha has moved uptown to a larger place, she has a larger kitchen (in area and equipment). How does this affect her production possibility frontier?   |  |  |  | | --- | --- | --- | |  | a. | It shifts it outward. | |  | b. | It shifts it inward. | |  | c. | It makes her less efficient. | |  | d. | It leaves her unable to produce as much as before. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 91. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. Points *A, B, E,* and *F:*  ​   |  |  |  | | --- | --- | --- | |  | a. | indicate combinations of trains and planes that society can produce using all of its resources efficiently. | |  | b. | show that the opportunity cost of trains increases as more trains are produced, while that of more planes decreases as more planes are produced. | |  | c. | indicate that society wants planes more than trains. | |  | d. | indicate constant opportunity costs for trains and increasing opportunity costs for planes.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 92. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. This production possibility frontier is:   |  |  |  | | --- | --- | --- | |  | a. | bowed out because of increasing opportunity costs. | |  | b. | bowed in because of increasing opportunity costs. | |  | c. | bowed out because of constant costs of trains and planes. | |  | d. | linear because of constant costs.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 93. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. If the economy is operating at point *B,* producing 16 trains and 12 planes per period, a decision to move to point *E* and produce 18 planes:  ​   |  |  |  | | --- | --- | --- | |  | a. | indicates that you can have more planes and more trains simultaneously. | |  | b. | makes it clear that this economy has decreasing opportunity costs. | |  | c. | entails a loss of 8 trains per period. | |  | d. | entails a loss of 4 trains per period.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 94. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. The combination of trains and planes at point *H:*  ​   |  |  |  | | --- | --- | --- | |  | a. | can be attained but would cost too much. | |  | b. | cannot be attained, given the level of technology and the resources available. | |  | c. | has no meaning, since it is not what consumers want. | |  | d. | is attainable but would increase unemployment.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 95. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. If the economy is producing 8 trains and 12 planes per period:  ​   |  |  |  | | --- | --- | --- | |  | a. | the economy suffers from unemployment and/or inefficiency in production. | |  | b. | the notion of increasing opportunity cost is invalidated. | |  | c. | the economy is still efficient but has made a decision not to buy as much as it could. | |  | d. | something must be done to reduce the amount of employment.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 96. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. A movement from point *C*, where the economy produces 12 trains and 16 planes per period, to point *B* means a \_\_\_\_\_of \_\_\_\_\_ trains and a \_\_\_\_\_ of \_\_\_\_\_ planes per period.  ​   |  |  |  | | --- | --- | --- | |  | a. | gain; 4; loss; 4 | |  | b. | gain; 2; loss; 4 | |  | c. | gain; 4; loss; 6 | |  | d. | loss; 2; gain; 4  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 97. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. Which rate of production per period is NOT efficient?  ​   |  |  |  | | --- | --- | --- | |  | a. | 18 trains and no planes | |  | b. | 8 trains and 18 planes | |  | c. | 16 trains and 12 planes | |  | d. | no trains and 18 planes  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 98. If a farmer in Indiana can produce 200 pounds of beets and no corn or no beets and 100 pounds of corn, and he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of corn is \_\_\_\_\_ pound(s) of beets.   |  |  |  | | --- | --- | --- | |  | a. | 0.5 | |  | b. | 2 | |  | c. | 100 | |  | d. | 200 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 99. If a farmer in Indiana can produce 200 pounds of beets and no corn or no beets and 100 pounds of corn, and he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of beets is \_\_\_\_\_ pound(s) of corn.   |  |  |  | | --- | --- | --- | |  | a. | 0.5 | |  | b. | 2 | |  | c. | 100 | |  | d. | 200 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 100. For a production possibility frontier with constant opportunity costs, the slope of the production possibility frontier will be:   |  |  |  | | --- | --- | --- | |  | a. | 0. | |  | b. | vertical. | |  | c. | positive. | |  | d. | negative. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 101. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy is producing at point *D,* the opportunity cost of producing at E is \_\_\_\_\_ cell phones per period.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 1 | |  | b. | 6 | |  | c. | 8 | |  | d. | 14 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 102. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at point *C,* the opportunity cost to it of producing at *D* is \_\_\_\_\_ cell phones per period.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 2 | |  | b. | 1 | |  | c. | 6 | |  | d. | 18 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 103. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 8 units of cell phones and 2 units of capital goods per period would result in:   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Table: Production Possibilities Schedule II** | | | | | | | | **Alternatives** | | **A** | **B** | **C** | **D** | **E** | | Computers |  | 0 | 1 | 2 | 3 | 4 | | Cell phones |  | 20 | 18 | 14 | 8 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | full employment. | |  | b. | no unused resources. | |  | c. | some unused or inefficiently used resources. | |  | d. | increased economic growth. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 104. (Figure: Speedboats and Pomegranates I) Use Figure: Speedboats and Pomegranates I. The figure shows the production possibility frontiers for two countries that produce only pomegranates and speedboats. The axes of the two graphs are measured in equivalent units. The United States is operating at point *M,* and Belarus is operating at point *N*. The opportunity cost of producing an additional ton of pomegranates would be greater in:  ​   |  |  |  | | --- | --- | --- | |  | a. | United States | |  | b. | Belarus. | |  | c. | neither; the opportunity cost would be the same in both countries. | |  | d. | There is not enough information to answer the question.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 105. (Figure: Speedboats and Pomegranates I) Use Figure: Speedboats and Pomegranates I. The figure shows production possibility frontiers for two countries that produce only pomegranates and speedboats. The axes of the two graphs are measured in equivalent units. The United States is operating at point *M,* and Belarus is operating at point *N*. Suppose the United States discovers a new technology that greatly increases its ability to produce speedboats but has no effect on its ability to produce pomegranates. This would:  ​   |  |  |  | | --- | --- | --- | |  | a. | lower the opportunity cost of producing pomegranates in the United States. | |  | b. | increase the opportunity cost of producing pomegranates in the United States. | |  | c. | not affect the opportunity cost of producing pomegranates in the United States. | |  | d. | increase the opportunity cost of producing pomegranates in Belarus.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 106. (Figure: Speedboats and Pomegranates II) Use Figure: Speedboats and Pomegranates II. The country depicted in this figure is operating at point *M*. It could achieve production at point *I* only if it:  ​   |  |  |  | | --- | --- | --- | |  | a. | used its resources more efficiently. | |  | b. | devoted more resources to pomegranate production. | |  | c. | devoted more resources to speedboat production. | |  | d. | increased the quantities of capital, natural resources, or labor available or improved its technology.  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 107. (Figure: Wheat and Trains) Use Figure: Wheat and Trains. Suppose the economy is operating at point *B*. The opportunity cost of producing the third train would be \_\_\_\_\_ tons of wheat.  ​   |  |  |  | | --- | --- | --- | |  | a. | 6 | |  | b. | 19 | |  | c. | 45 | |  | d. | 80  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 108. (Figure: Wheat and Trains) Use Figure: Wheat and Trains. Suppose the economy is operating at point *C*. The opportunity cost of producing the fourth train would be:   |  |  |  | | --- | --- | --- | |  | a. | 19 tons of wheat. | |  | b. | 45 tons of wheat. | |  | c. | 80 tons of wheat. | |  | d. | 3 trains.  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 109. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Point *F* is:  ​   |  |  |  | | --- | --- | --- | |  | a. | unattainable, all other things unchanged. | |  | b. | attainable if the quantity and/or quality of factors decreases. | |  | c. | attainable if the economy can reach full employment. | |  | d. | feasible but not efficient.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 110. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Suppose the economy is operating at point *A*. The first speedboat, which is produced at point *B*, would have an opportunity cost of \_\_\_\_\_ computers.  ​   |  |  |  | | --- | --- | --- | |  | a. | 50 | |  | b. | 150 | |  | c. | 400 | |  | d. | 950  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 111. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Assume that the economy is operating at point *A*. The opportunity cost of moving to point *C* is \_\_\_\_\_ computers:  ​   |  |  |  | | --- | --- | --- | |  | a. | 800 | |  | b. | 200 | |  | c. | 2 | |  | d. | 50  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 112. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. The downward slope of the production possibility frontier implies that resources:  ​   |  |  |  | | --- | --- | --- | |  | a. | must be used efficiently. | |  | b. | are scarce. | |  | c. | should not be wasted. | |  | d. | should be allocated so that approximately equal amounts of both goods are produced.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 113. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Suppose the economy is operating at point *B*. Achieving production at point *F* would require that the economy:  ​   |  |  |  | | --- | --- | --- | |  | a. | achieve full employment and an efficient allocation of resources. | |  | b. | reduce its production of computers. | |  | c. | reduce its production of speedboats. | |  | d. | improve its technology or increase its resources.  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 114. If the economy of Microlandia is efficient in production, then it must be the case that Microlandia is \_\_\_\_\_ its production possibility frontier.   |  |  |  | | --- | --- | --- | |  | a. | operating inside | |  | b. | operating on | |  | c. | operating outside | |  | d. | moving beyond |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 115. Assume an economy is operating on its production possibility frontier, which shows the maximum output combinations of medical services and administrative services. If the output of medical services is increased, the output of administrative services:   |  |  |  | | --- | --- | --- | |  | a. | will increase, too. | |  | b. | will not change. | |  | c. | must decrease. | |  | d. | may increase or decrease. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 116. The process observed when an economy's production possibility frontier shifts outward is:   |  |  |  | | --- | --- | --- | |  | a. | comparative advantage. | |  | b. | economic growth. | |  | c. | full employment. | |  | d. | specialization. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 117. If the amount of resources available to the local economy increases, or there are improvements in technology, then the production possibility frontier will:   |  |  |  | | --- | --- | --- | |  | a. | shift inward. | |  | b. | shift outward. | |  | c. | remain unchanged. | |  | d. | become vertical. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 118. If an economy sees an improvement in technology, then there would be:   |  |  |  | | --- | --- | --- | |  | a. | no change in the production possibility frontier. | |  | b. | an inward shift of the production possibility frontier. | |  | c. | an outward shift of the production possibility frontier. | |  | d. | an increase in unemployment. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 119. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. If the economy is operating at point *Y*, and its relevant production possibility frontier is given by given by PPF1*:*  ​  ​  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | the economy is at full employment and is efficient. | |  | b. | the economy is less than fully employed. | |  | c. | the economy is not efficient. | |  | d. | economic growth is not possible in the future.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 120. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. The movement from PPF1 to PPF2 indicates a(n):  ​   |  |  |  | | --- | --- | --- | |  | a. | increase in the economy’s ability to produce automobiles and cell phones. | |  | b. | rising stock market. | |  | c. | decrease in the availability of factors of production. | |  | d. | decrease in the economy’s production of automobiles and cell phones.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 121. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Technological improvements will likely:  ​   |  |  |  | | --- | --- | --- | |  | a. | shift the production possibility frontier inward to PPF1. | |  | b. | shift the production possibility frontier outward to PPF2. | |  | c. | lead to increased unemployment. | |  | d. | leave the production possibility frontier unchanged.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 122. Abigail starts exercising regularly, and after a few months, she can do twice as much of everything. In a single day, Abigail can now make 10 sandwiches or 8 root beer floats rather than the 5 sandwiches and 4 root beer floats she made in the past. We now know that Abigail’s production possibility frontier has \_\_\_\_\_, but her opportunity cost of making root beer floats has \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | shifted outward; not changed | |  | b. | shifted outward; decreased | |  | c. | not changed; increased | |  | d. | not changed; decreased |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 123. When a nation’s economy grows:   |  |  |  | | --- | --- | --- | |  | a. | its efficient level of production is on a production possibility frontier that is further outward than the original. | |  | b. | its production possibility frontier has necessarily shifted inward. | |  | c. | it has moved to a position at the interior of the production possibility frontier. | |  | d. | it has moved to a more consumer-oriented position on its production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 124. As long as people have different \_\_\_\_\_, everyone has a comparative advantage in something.   |  |  |  | | --- | --- | --- | |  | a. | direct costs | |  | b. | benefits | |  | c. | levels of utility | |  | d. | opportunity costs |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 125. Because of trade, a country may:   |  |  |  | | --- | --- | --- | |  | a. | consume outside its production possibility frontier. | |  | b. | consume inside its production possibility frontier. | |  | c. | produce at a point outside its production possibility frontier. | |  | d. | eliminate opportunity costs. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 126. An economy is said to have a comparative advantage if it:   |  |  |  | | --- | --- | --- | |  | a. | can produce more of all goods than another economy with the same amount of resources. | |  | b. | can produce fewer of all goods than another economy. | |  | c. | has the highest opportunity cost of producing a particular good compared with other economies. | |  | d. | has the lowest opportunity cost of producing a particular good compared with other economies. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 127. The economy with the LOWEST opportunity cost of producing a particular good is said to have a(n):   |  |  |  | | --- | --- | --- | |  | a. | technological advantage. | |  | b. | comparative advantage. | |  | c. | advantage in production. | |  | d. | increasing opportunity cost. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 128. An economy is said to have a \_\_\_\_\_ in the production of a good if it can produce that good \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | comparative advantage; with more resources than another economy | |  | b. | absolute advantage; at a higher opportunity cost than another economy | |  | c. | absolute advantage; outside its production possibility frontier | |  | d. | comparative advantage; at a lower opportunity cost than another economy |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 129. (Table: Shrimp and Banana Production Possibilities) Use Table: Shrimp and Banana Production Possibilities. The table shows the maximum number of shrimp and bananas that Issa and Lawrence can produce if they produce only one good. In the absence of trade, Issa produces and consumes 9 shrimp and 2 bananas, and Lawrence produces and consumes 3 shrimp and 2 bananas. Now they decide to engage in trade. Which statement is INCORRECT?   |  |  |  | | --- | --- | --- | | **Table: Shrimp and Bananas Production Possibilities\_** | | | |  | **Shrimp** | **Bananas** | | Issa | 12 | 8 | | Lawrence | 5 | 5 |  |  |  |  | | --- | --- | --- | |  | a. | For both to become better off, each should specialize in the production of some good. However, since Henry is equally productive in both goods, it doesn’t matter which good each specializes in. | |  | b. | For both to become better off, each should fully specialize in the production of the good in which she or he has a comparative advantage. | |  | c. | After trade, it is possible for Rita to consume 9 shrimp and 2.5 bananas and for Henry to consume 3 shrimp and 2.5 bananas. | |  | d. | For each individual, the consumption point after trade will lie outside that individual’s production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 130. In one hour, the United States can produce 25 tons of platinum or 250 electric cars. In one hour, Canada can produce 30 tons of platinum or 275 electric cars. This information implies that:   |  |  |  | | --- | --- | --- | |  | a. | Canada has a comparative advantage in the production of electric cars. | |  | b. | the United States has an absolute advantage in the production of platinum. | |  | c. | Canada has a comparative advantage in the production of both goods. | |  | d. | the United States has a comparative advantage in the production of electric cars. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 131. (Table: Matcha Tea and Coho Salmon Production Possibilities) Use Table: Matcha Tea and Coho Salmon Production Possibilities. The table shows the maximum amounts of matcha tea and Coho salmon that Colombia and Washington can produce if each produces just one good. The opportunity cost of producing 1 unit of matcha tea for Colombia is \_\_\_\_\_ Coho salmon.   |  |  |  | | --- | --- | --- | | **Table: Matcha Tea and Coho Salmon** | | | |  | **Matcha Tea** | **Coho Salmon** | | Colombia | 40 | 20 | | Washington | 10 | 10 |  |  |  |  | | --- | --- | --- | |  | a. | 2 | |  | b. | 0.25 | |  | c. | 1 | |  | d. | 0.5 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 132. (Table: Matcha Tea and Coho Salmon Production Possibilities) Use Table: Matcha Tea and Coho Salmon Production Possibilities. The table shows the maximum amounts of matcha tea and Coho salmon that Colombia and Washington can produce if each produces just one good. The opportunity cost of producing 1 unit of Coho salmon for Washington is \_\_\_\_\_ matcha tea(s).   |  |  |  | | --- | --- | --- | | **Table: Matcha Tea and Coho Salmon** | | | |  | **Matcha Tea** | **Coho Salmon** | | Colombia | 40 | 20 | | Washington | 10 | 10 |  |  |  |  | | --- | --- | --- | |  | a. | 2 | |  | b. | 0.25 | |  | c. | 1 | |  | d. | 0.5 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 133. Free trade between countries:   |  |  |  | | --- | --- | --- | |  | a. | should be based on absolute advantage. | |  | b. | always involves wealthy countries exploiting less developed nations. | |  | c. | shifts a country’s domestic production from a point below the production possibility frontier to a point on the production possibility frontier. | |  | d. | allows for greater consumption than without trade. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 134. If they spend all night writing computer programs, Laurence can write 10 programs, and Carrie Anne can write 5. If they spend all night making sunglasses, Laurence can make 6 pairs, and Carrie Anne can make 4. Given this information and supposing Laurence and Carrie Anne have constant opportunity costs, we know that \_\_\_\_\_ has an absolute advantage in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Laurence; programs but not in sunglasses | |  | b. | Laurence; both programs and sunglasses | |  | c. | Carrie Anne; programs but not in sunglasses | |  | d. | Carrie Anne; both programs and sunglasses |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 135. If they spend all night writing poems, Leticia can write 10 poems, and Isabella can write 5. If they spend all night making necklaces, Leticia can make 6, and Isabella can make 4. We know that:   |  |  |  | | --- | --- | --- | |  | a. | Leticia’s opportunity cost of writing poems is less than Isabella’s. | |  | b. | Leticia’s opportunity costs of writing poems and of making necklaces are less than Isabella’s. | |  | c. | Isabella’s opportunity costs of writing poems and of making necklaces are less than Leticia’s. | |  | d. | Isabella’s opportunity cost of writing poems is less than Leticia’s. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 136. If they spend all night writing poems, Leticia can write 10 poems, and Isabella can write 5. If they spend all night making necklaces, Leticia can make 6, and Isabella can make 4. We know that \_\_\_\_\_ has a comparative advantage in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Leticia; poems | |  | b. | Leticia; both poems and sunglasses | |  | c. | Isabella; poems | |  | d. | Isabella; both poems and sunglasses |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 137. Which statement is TRUE?   |  |  |  | | --- | --- | --- | |  | a. | Some people have a comparative advantage in everything they do. | |  | b. | Some people have a comparative advantage in nothing they do. | |  | c. | Some people have a very low opportunity cost in everything they do. | |  | d. | It is possible to have no absolute advantage but a comparative advantage in the production of some good. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 138. In a single day, Josephine can produce 10 hot dogs, and Abigail can produce 5 hot dogs. Therefore, \_\_\_\_\_ has a(n) \_\_\_\_\_ advantage in making hot dogs.   |  |  |  | | --- | --- | --- | |  | a. | Josephine; comparative | |  | b. | Josephine; absolute | |  | c. | Abigail; comparative | |  | d. | Abigail; absolute |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 139. If they produce only sandwiches, in a single day, Seraphim can produce 10 sandwiches, and Abigail can produce 5 sandwiches. If they make only root beer floats, in a single day, Seraphim can produce 10 root beer floats, and Abigail can produce 4 root beer floats. Therefore, \_\_\_\_\_ has an absolute advantage and a comparative advantage in making \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Seraphim; sandwiches | |  | b. | Seraphim; root beer floats | |  | c. | Abigail; sandwiches | |  | d. | Abigail; root beer floats |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 140. Roommates Samara and Zendaya are hosting a Christmas party and have to make snacks for their guests and ornaments for themselves. Samara and Zendaya know that to finish both tasks as quickly as possible, each should focus on just one task, but they don’t know who should do what. Samara and Zendaya should determine which roommate:   |  |  |  | | --- | --- | --- | |  | a. | has the absolute advantage in preparing snacks. | |  | b. | has the comparative advantage in preparing snacks. | |  | c. | can make the most snacks in a given amount of time. | |  | d. | can make all the snacks in the least amount of time. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 141. Economists generally believe that a country should specialize in the production of a good or service if:   |  |  |  | | --- | --- | --- | |  | a. | its production possibility frontier is further from the origin than that of any other country. | |  | b. | its production possibility frontier is closer to the origin than that of any other country. | |  | c. | the country can produce the product using more resources than any other country. | |  | d. | the country can produce the product while forgoing fewer alternative products than any other country. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 142. (Table: Matcha Tea and Coho Salmon Production Possibilities II) Use Table: Matcha Tea and Coho Salmon Production Possibilities II. This table shows the maximum amounts of matcha tea and Coho salmon, both measured in pounds, that Colombia and Washington can produce if each produces just one good. Colombia has an absolute advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Matcha Tea and Coho Salmon** | | | |  | **Matcha Tea** | **Coho Salmon** | | Colombia | 40 | 20 | | Washington | 10 | 10 |  |  |  |  | | --- | --- | --- | |  | a. | matcha tea only. | |  | b. | Coho salmon only. | |  | c. | both matcha tea and Coho salmon. | |  | d. | neither matcha tea nor Coho salmon. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 143. (Table: Matcha Tea and Coho Salmon Production Possibilities II) Use Table: Matcha Tea and Coho Salmon Production Possibilities II. This table shows the maximum amounts of matcha tea and Coho salmon, both measured in pounds, that Colombia and Washington can produce if each produces just one good. Washington has an absolute advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Matcha Tea and Coho Salmon** | | | |  | **Matcha Tea** | **Coho Salmon** | | Colombia | 40 | 20 | | Washington | 10 | 10 |  |  |  |  | | --- | --- | --- | |  | a. | matcha tea only. | |  | b. | Coho salmon only. | |  | c. | both matcha tea and Coho salmon. | |  | d. | neither matcha tea nor Coho salmon. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 144. (Table: Matcha Tea and Coho Salmon Production Possibilities II) Use Table: Matcha Tea and Coho Salmon Production Possibilities II. This table shows the maximum amounts of matcha tea and Coho salmon, both measured in pounds, that Colombia and Washington can produce if each produces just one good. Colombia has a comparative advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Matcha Tea and Coho Salmon** | | | |  | **Matcha Tea** | **Coho Salmon** | | Colombia | 40 | 20 | | Washington | 10 | 10 |  |  |  |  | | --- | --- | --- | |  | a. | matcha tea only. | |  | b. | Coho salmon only. | |  | c. | both matcha tea and Coho salmon. | |  | d. | neither matcha tea nor Coho salmon |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 145. An economy is said to have a comparative advantage in the production of one good if it:   |  |  |  | | --- | --- | --- | |  | a. | can produce more of all goods than another economy. | |  | b. | can produce fewer of all goods than another economy. | |  | c. | has the highest opportunity cost of producing a particular good. | |  | d. | has the lowest opportunity cost of producing a particular good. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 146. An economy that has the \_\_\_\_\_\_\_\_ opportunity cost of producing a particular good is said to have \_\_\_\_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | lowest; an absolute advantage in the production of that good | |  | b. | lowest; a comparative advantage in the production of that good | |  | c. | highest; a production possibility frontier | |  | d. | highest; increasing opportunity costs in the production of that good |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 147. The concept of comparative advantage is based on:   |  |  |  | | --- | --- | --- | |  | a. | labor productivity. | |  | b. | relative labor costs between trading nations. | |  | c. | dollar prices of labor between nations. | |  | d. | relative opportunity costs between trading partners. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 148. An economy is said to have a(n) \_\_\_\_\_ in the production of a good if it can produce that good \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | absolute advantage; with more resources than another economy | |  | b. | comparative advantage; at a higher opportunity cost than another economy | |  | c. | absolute advantage; outside its production possibility frontier | |  | d. | comparative advantage; at a lower opportunity cost than another economy |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 149. If the opportunity cost of manufacturing tractors is lower in the United States than in the United Kingdom, and the opportunity cost of manufacturing running shoes is higher in the United States than in the United Kingdom, then the United States will:   |  |  |  | | --- | --- | --- | |  | a. | export both running shoes and tractors to the United Kingdom. | |  | b. | import both running shoes and tractors from the United Kingdom. | |  | c. | export running shoes to the United Kingdom and import tractors from the United Kingdom. | |  | d. | import running shoes from the United Kingdom and export tractors to the United Kingdom. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 150. If the opportunity cost of manufacturing tractors is higher in the United States than in the United Kingdom, and the opportunity cost of manufacturing running shoes is lower in the United States than in the United Kingdom, then the United States will:   |  |  |  | | --- | --- | --- | |  | a. | export both running shoes and tractors to the United Kingdom. | |  | b. | import both running shoes and tractors from the United Kingdom. | |  | c. | export running shoes to the United Kingdom and import tractors from the United Kingdom. | |  | d. | import running shoes from the United Kingdom and export tractors to the United Kingdom. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 151. Trade can be beneficial to an economy because:   |  |  |  | | --- | --- | --- | |  | a. | it results in a more inefficient use of resources overall. | |  | b. | it enables more goods and services to be obtained at a lower opportunity cost. | |  | c. | it prevents specialization in activities in which countries have a comparative advantage. | |  | d. | it eliminates unemployment. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 152. If France gives up three high speed trains for each ton of cheese it produces, while Canada gives up seven high speed trains for each ton of cheese it produces, then France has a comparative advantage in \_\_\_\_\_ production and should specialize in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | high speed trains; cheese | |  | b. | cheese; high speed trains | |  | c. | cheese; cheese | |  | d. | high speed trains; high speed trains |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 153. If countries engage in international trade:   |  |  |  | | --- | --- | --- | |  | a. | the ability to specialize will make them competitive in all types of production. | |  | b. | worldwide levels of production will fall. | |  | c. | they can consume inside their production possibility frontiers. | |  | d. | they can consume outside their production possibility frontiers. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 154. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Japan has an absolute advantage in producing:   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | computers only. | |  | b. | tuna only. | |  | c. | both computers and tuna. | |  | d. | neither computers nor tuna. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 155. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Norway has an absolute advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | computers only. | |  | b. | tuna only. | |  | c. | both computers and tuna. | |  | d. | neither computers nor tuna. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 156. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Japan has a comparative advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | computers only. | |  | b. | tuna only. | |  | c. | both computers and tuna. | |  | d. | neither computers nor tuna. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 157. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Norway has a comparative advantage in producing:   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | computers only. | |  | b. | tuna only. | |  | c. | both computers and tuna. | |  | d. | neither computers nor tuna. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 158. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of computers for Japan is \_\_\_\_\_ box(es) of tuna.   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | 10 | |  | b. | 0.2 | |  | c. | 5 | |  | d. | 0.1 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 159. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of computers for Norway is \_\_\_\_\_ box(es) of tuna.   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | 10 | |  | b. | 0.5 | |  | c. | 5 | |  | d. | 0.1 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 160. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of tuna for Japan is \_\_\_\_\_ box(es) of computers.   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | 10 | |  | b. | 0.5 | |  | c. | 5 | |  | d. | 0.1 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 161. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of tuna for Norway is \_\_\_\_\_ box(es) of computers.   |  |  |  | | --- | --- | --- | | **Table: Comparative Advantage I** | | | | Japan and Norway produce only two goods, tuna and computers, and this table shows the maximum amount that each nation can produce of the two goods. | | | |  | **Japan** | **Norway** | | Tuna | 100,000 boxes | 50,000 boxes | | Computers | 10,000 | 10,000 |  |  |  |  | | --- | --- | --- | |  | a. | 10 | |  | b. | 0.2 | |  | c. | 5 | |  | d. | 0.1 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 162. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Canada has an absolute advantage in producing:  ​   |  |  |  | | --- | --- | --- | |  | a. | apples only. | |  | b. | cheese only. | |  | c. | both apples and cheese. | |  | d. | neither apples nor cheese.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 163. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. France has an absolute advantage in producing:  ​   |  |  |  | | --- | --- | --- | |  | a. | apples only. | |  | b. | cheese only. | |  | c. | both apples and cheese. | |  | d. | neither apples or cheese.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 164. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of apples for Canada is \_\_\_\_\_ box(es) of cheese.  ​   |  |  |  | | --- | --- | --- | |  | a. | 1 | |  | b. | 0.25 | |  | c. | 4 | |  | d. | 10  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 165. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of apples for France is \_\_\_\_\_ box(es) of cheese.  ​   |  |  |  | | --- | --- | --- | |  | a. | 1 | |  | b. | 0.25 | |  | c. | 4 | |  | d. | 10  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 166. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of cheese for Canada is \_\_\_\_\_ box(es) of apples.  ​   |  |  |  | | --- | --- | --- | |  | a. | 1 | |  | b. | 0.25 | |  | c. | 4 | |  | d. | 10  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 167. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of cheese for France is \_\_\_\_\_ box(es) of apples.  ​   |  |  |  | | --- | --- | --- | |  | a. | 1 | |  | b. | 0.25 | |  | c. | 4 | |  | d. | 10  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 168. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Canada has a comparative advantage in producing:  ​   |  |  |  | | --- | --- | --- | |  | a. | apples only. | |  | b. | cheese only. | |  | c. | both apples and cheese. | |  | d. | neither apples nor cheese.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 169. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. France has a comparative advantage in producing:   |  |  |  | | --- | --- | --- | |  | a. | apples only. | |  | b. | cheese only. | |  | c. | both apples and cheese. | |  | d. | neither apples nor cheese.  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 170. Which statement is TRUE?   |  |  |  | | --- | --- | --- | |  | a. | Talented people may have a comparative advantage in everything they do. | |  | b. | Untalented people have a high opportunity cost in something they do. | |  | c. | Talented people may have a high opportunity cost in most things they do. | |  | d. | Untalented people may have a high opportunity cost in most things they do. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 171. In a single day, Gregory can bake 10 muffins, and Gabriella can bake 5 muffins. We know that \_\_\_\_\_ has a(n) \_\_\_\_\_ advantage in baking muffins.   |  |  |  | | --- | --- | --- | |  | a. | Gregory; comparative | |  | b. | Gregory; absolute | |  | c. | Gabriella; comparative | |  | d. | Gabriella; absolute |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 172. If they bake only muffins, in a single day, Gregory can bake 10 muffins, and Gabriella can bake 5 muffins. If they bake only cookies, in a single day, Gregory can bake 10 cookies, and Gabriella can bake 4 cookies. We know that \_\_\_\_\_ has an absolute advantage and a comparative advantage in baking \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Gregory; muffins | |  | b. | Gregory; cookies | |  | c. | Gabriella; muffins | |  | d. | Gabriella; cookies |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 173. Gabriella starts using a new baking technique, and she can now do twice as much of everything. In a single day, Gabriella can now bake 10 muffins or 8 cookies, rather than the 5 muffins and 4 cookies she could previously bake. Gabriella’s production possibility frontier has \_\_\_\_\_, and her opportunity cost of making cookies \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | shifted right; is unchanged | |  | b. | shifted right; has decreased | |  | c. | not changed; has increased | |  | d. | not changed; has decreased |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 174. Coworkers Evelyn and Reginald are washing the windows and waxing the floors of the dollar store at which they work. They know that to finish both tasks as quickly as possible, each should focus on just one task, but they don’t know who should do what. Evelyn and Reginald should determine which one:   |  |  |  | | --- | --- | --- | |  | a. | has the absolute advantage in both waxing and dishwashing. | |  | b. | has the comparative advantage in window washing. | |  | c. | has the production possibility frontier that is farthest from the origin in window washing. | |  | d. | can wash the windows faster. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 175. To achieve gains from trade, a trading nation should specialize in the production of goods:   |  |  |  | | --- | --- | --- | |  | a. | for which its production possibility frontier is farther from the origin than that of any other country. | |  | b. | for which its production possibility frontier is closer to the origin than that of any other country. | |  | c. | that it can produce using fewer resources than any other country. | |  | d. | that it can produce while forgoing the production of fewer alternative products than any other country. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 176. Dr. Aquafresh is a dentist who employs an assistant, Mr. Close-up. If Dr. Aquafresh worked all day at the front desk, he could answer 40 emails. If he worked all day with patients, he could clean the teeth of 40 patients. If Mr. Close-up worked all day at the front desk, he could answer 60 emails. If he worked all day with patients, he could clean the teeth of 20 patients. \_\_\_\_\_ has a(n) \_\_\_\_\_ advantage in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Dr. Aquafresh; absolute; answering emails | |  | b. | Mr. Close-up; comparative; answering emails | |  | c. | Mr. Close-up; absolute; cleaning patients' teeth | |  | d. | Dr. Aquafresh; comparative; answering emails |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 177. (Table: Corn and Steel) Use Table: Corn and Steel. The United States and Germany can produce both corn and steel. The table shows, in tonnage, the maximum annual output combinations of corn and steel that the two countries can produce. Which choice represents a possible trade based on specialization and comparative advantage?  ​   |  |  |  | | --- | --- | --- | | **Table: Corn and Steel** | | | |  | **Corn Production** | **Steel Production** | | **United States** | 100 | 0 | |  | 0 | 100 | |  | **Corn Production** | **Steel Production** | | **Germany** | 50 | 0 | |  | 0 | 100 |   ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | Germany would trade 2 tons of corn to the United States for 1 ton of steel. | |  | b. | Germany would trade 2 tons of steel to the United States for 0.5 ton of corn. | |  | c. | The United States would trade 1 ton of corn to Germany for 1 ton of steel. | |  | d. | The United States would trade 1 ton of corn to Germany for 1.5 tons of steel.  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 178. (Table: Corn and Steel) Use Table: Corn and Steel. The United States and Germany can produce both corn and steel. The table shows the maximum annual output combinations of corn and steel that can be produced. Based on the table:  ​   |  |  |  | | --- | --- | --- | | **Table: Corn and Steel** | | | |  | **Corn Production** | **Steel Production** | | **United States** | 100 | 0 | |  | 0 | 100 | |  | **Corn Production** | **Steel Production** | | **Germany** | 50 | 0 | |  | 0 | 100 |   ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​  ​   |  |  |  | | --- | --- | --- | |  | a. | the United States has a comparative advantage in corn and an absolute advantage in corn. | |  | b. | Germany has an absolute advantage in steel and a comparative advantage in corn. | |  | c. | the United States has a comparative advantage in both steel and corn. | |  | d. | Germany has a comparative advantage in steel and an absolute advantage in steel.  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 179. In one day, Keshia can bake 10 muffins or mix 15 glasses of passion fruit juice. His friend Alicia can bake 10 muffins or mix 10 glasses of passionfruit juice. His other friend, Ewan, can bake 10 muffins or mix 20 glasses of passionfruit juice. Who has the LOWEST opportunity cost in muffin production?   |  |  |  | | --- | --- | --- | |  | a. | Keshia | |  | b. | Alicia | |  | c. | Ewan | |  | d. | Keshia and Alicia have the same opportunity cost in muffin production. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 180. Because Cornell can type reports faster and more accurately than Alice, Cornell has a(n) \_\_\_\_\_ in typing reports.   |  |  |  | | --- | --- | --- | |  | a. | comparative advantage | |  | b. | absolute advantage | |  | c. | opportunity cost | |  | d. | specialization |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 181. Marius and Jennifer are going to sell cupcakes and muffins at their third annual fundraiser bake sale. In one day, Marius can make 40 cupcakes or 20 muffins, and Jennifer can make 15 cupcakes or 15 muffins. Based on this information, \_\_\_\_\_ has the comparative advantage in cupcakes, and \_\_\_\_\_ has the comparative advantage in muffins.   |  |  |  | | --- | --- | --- | |  | a. | Marius; Jennifer | |  | b. | Marius; Marius | |  | c. | Jennifer; Marius | |  | d. | Jennifer; Jennifer |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 182. Marius and Jennifer are going to sell cupcakes and muffins at their third annual fundraiser bake sale. In one day, Marius can make 40 cupcakes or 20 muffins, and Jennifer can make 15 cupcakes or 15 muffins. What is Marius’s opportunity cost of producing one cupcake?   |  |  |  | | --- | --- | --- | |  | a. | 1 cookie | |  | b. | 1 cupcake | |  | c. | 0.5 cookie | |  | d. | 0.5 cupcake |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 183. Marius and Jennifer are going to sell cupcakes and muffins at their third annual fundraiser bake sale. In one day, Marius can make 40 cupcakes or 20 muffins, and Jennifer can make 15 cupcakes or 15 muffins. With specialization, \_\_\_\_\_ cupcakes and \_\_\_\_\_ muffins will be made in one day.   |  |  |  | | --- | --- | --- | |  | a. | 15; 20 | |  | b. | 40; 20 | |  | c. | 40; 15 | |  | d. | 55; 35 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 184. Marius and Jennifer are going to sell cupcakes and muffins at their third annual fundraiser bake sale. In one day, Marius can make 40 cupcakes or 20 muffins, and Jennifer can make 15 cupcakes or 15 muffins. Based on this information, \_\_\_\_\_ has the absolute advantage in cupcakes, and \_\_\_\_\_ has the absolute advantage in muffins.   |  |  |  | | --- | --- | --- | |  | a. | Marius; Jennifer | |  | b. | Marius; Marius | |  | c. | Jennifer; Marius | |  | d. | Marius; neither Marius nor Jennifer |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 185. (Table: Mugs and Baseballs) Use Table: Mugs and Baseballs. Charlotte and Bernard make mugs and kites. Who has the comparative advantage in producing kites?  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Table: Mugs and Baseballs** | | | | | | **Charlotte** | | **Bernard** | | | | **Mugs** | **Kites** | | **Mugs** | **Kites** | | 1 | 10 | | 4 | 14 | | 2 | 9 | | 5 | 12 | | 3 | 8 | | 6 | 10 |   ​   |  |  |  | | --- | --- | --- | |  | a. | Charlotte | |  | b. | Bernard | |  | c. | both | |  | d. | neither  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 186. (Table: Mugs and Baseballs) Use Table: Mugs and Baseballs. Charlotte and Bernard make mugs and kites. Who should specialize in the production of mugs?  ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Table: Mugs and Baseballs** | | | | | | **Charlotte** | | **Bernard** | | | | **Mugs** | **Kites** | | **Mugs** | **Kites** | | 1 | 10 | | 4 | 14 | | 2 | 9 | | 5 | 12 | | 3 | 8 | | 6 | 10 |   ​   |  |  |  | | --- | --- | --- | |  | a. | Charlotte | |  | b. | Bernard | |  | c. | both | |  | d. | neither  ​ |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 187. If the opportunity cost of manufacturing tractors is lower in the United States than in Germany, and the opportunity cost of manufacturing trains is higher in the United States than in Germany, then the United States will:   |  |  |  | | --- | --- | --- | |  | a. | export both trains and tractors to Germany. | |  | b. | import both trains and tractors from Germany. | |  | c. | export trains to Germany and import tractors from Germany. | |  | d. | import trains from Germany and export tractors to Germany. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 188. If the opportunity cost of manufacturing tractors is higher in the United States than in Germany, and the opportunity cost of manufacturing trains is lower in the United States than in Germany, then the United States will:   |  |  |  | | --- | --- | --- | |  | a. | export both trains and tractors to Germany. | |  | b. | import both trains and tractors from Germany. | |  | c. | export trains to Germany and import tractors from Germany. | |  | d. | import trains from Germany and export tractors to Germany. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 189. Assume that Brazil gives up three cars for each ton of sugar cane it produces, while Peru gives up seven cars for each ton of sugar cane it produces. Brazil has a comparative advantage in \_\_\_\_\_ production and should specialize in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | cars; sugar cane | |  | b. | sugar cane; cars | |  | c. | sugar cane; sugar cane | |  | d. | cars; cars |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 190. Economists generally support:   |  |  |  | | --- | --- | --- | |  | a. | government restrictions on trade. | |  | b. | free international trade. | |  | c. | tariffs to restrict trade. | |  | d. | subsidizing exports. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 191. When individuals or countries directly exchange goods they have for goods they want, they are engaging in \_\_\_\_\_ .   |  |  |  | | --- | --- | --- | |  | a. | exploitation | |  | b. | benevolence | |  | c. | barter | |  | d. | a zero-sum game |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 192. The circular-flow model shows the interaction between households and firms in relation to flows of money, goods, and services, and factors of production. In this model:   |  |  |  | | --- | --- | --- | |  | a. | barter transactions take place in the goods and services market. | |  | b. | households and firms interact in the goods and services market, but firms are the only participants in the factor market. | |  | c. | firms supply goods and services to households, which in turn supply factors of production to firms. | |  | d. | attention is focused on flows of goods and services and factors of production, with money flows mostly ignored for simplicity. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 193. A recent college graduate who decides to go back to school for an advanced degree (a doctorate, for example) adds to the existing stock of \_\_\_\_\_\_\_\_\_ in the economy.   |  |  |  | | --- | --- | --- | |  | a. | labor | |  | b. | physical capital | |  | c. | human capital | |  | d. | financial capital |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 194. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram, there is a significant decrease in the amount of labor flowing to firms that produce bananas. If all other variables remain unchanged, this adjustment would be BEST represented in the production possibilities diagram by a move from point *A* toward:    ​   |  |  |  | | --- | --- | --- | |  | a. | point *A* (no movement). | |  | b. | point *B* (a decrease in banana production and an increase in pineapple production). | |  | c. | point *C* (a decrease in banana production). | |  | d. | point *D* (an outward shift of the entire curve).  ​ |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 195. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram, capital that used to flow to firms producing bananas now flows to firms producing pineapple. This adjustment would be BEST represented in the production possibilities diagram by a move from point *A* toward:     |  |  |  | | --- | --- | --- | |  | a. | point *A* (no movement). | |  | b. | point *B* (a decrease in banana production and an increase in pineapple production). | |  | c. | point *C* (a decrease in banana production). | |  | d. | point *D* (an outward shift of the entire curve).  ​ |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 196. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram, there is a significant increase in the amount of human capital flowing to both banana producers and pineapple producers. If all other variables remain unchanged, this adjustment would be BEST represented in the production possibilities diagram by a movement from point *A* toward:    ​   |  |  |  | | --- | --- | --- | |  | a. | point *A* (no movement). | |  | b. | point *B* (a decrease in banana production and an increase in pineapple production). | |  | c. | point *C* (a decrease in banana production). | |  | d. | point *D* (an outward shift of the entire curve).  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 197. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram, most firms undergo a significant increase in productivity. This results in a significant increase in output of both bananas and pineapples. If all other variables remain unchanged, this adjustment would be BEST represented in the production possibilities diagram by a movement from point *A* toward:     |  |  |  | | --- | --- | --- | |  | a. | point *A* (no movement). | |  | b. | point *B* (a decrease in banana production and an increase in pineapple production). | |  | c. | point *C* (a decrease in banana production). | |  | d. | point *D* (an outward shift of the entire curve).  ​ |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 198. If Leonard trades two muffins for one of Aaron’s bagels, we say that they are engaging in:   |  |  |  | | --- | --- | --- | |  | a. | exploitation. | |  | b. | benevolence. | |  | c. | barter. | |  | d. | a zero-sum game. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 199. Which statement is TRUE about the circular-flow diagram?   |  |  |  | | --- | --- | --- | |  | a. | Households are the primary demanders of goods and services. | |  | b. | Firms are the secondary suppliers of goods and services. | |  | c. | Money flows from households to firms, as households offer factors of production for sale. | |  | d. | Money flows in the same direction as goods and services and factors of production. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 200. Which item is NOT a factor of production?   |  |  |  | | --- | --- | --- | |  | a. | workers | |  | b. | factories and heavy machinery | |  | c. | farmland | |  | d. | money used to buy inputs used in production |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 201. The circular-flow diagram illustrates how households \_\_\_\_\_ goods and services and \_\_\_\_\_ factors of production.   |  |  |  | | --- | --- | --- | |  | a. | buy; sell | |  | b. | buy; buy | |  | c. | own; buy | |  | d. | own; sell |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 202. The circular-flow diagram illustrates how firms \_\_\_\_\_ goods and services and \_\_\_\_\_ factors of production.   |  |  |  | | --- | --- | --- | |  | a. | buy; sell | |  | b. | buy; buy | |  | c. | sell; buy | |  | d. | sell; sell |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 203. In the simplest circular-flow model, households supply \_\_\_\_\_ and demand \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | capital; barter | |  | b. | wages and income; capital markets | |  | c. | factors of production; goods and services | |  | d. | firms; markets |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 204. The circular-flow diagram represents the market for \_\_\_\_\_ and the market for \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | goods and services; factors of production | |  | b. | household purchases; firm profits | |  | c. | money profits; goods and services | |  | d. | factors of production; money lending |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 205. The circular-flow diagram shows the flow of \_\_\_\_\_, the flow of \_\_\_\_\_, and the flow of \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | goods and services; factors of production; markets | |  | b. | goods and services; firms; money | |  | c. | money; goods and services; factors of production | |  | d. | factors of production; money; households |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 206. The circular-flow diagram shows how:   |  |  |  | | --- | --- | --- | |  | a. | banks receive money from households and lend it to firms. | |  | b. | money, goods and services, and factors of production flow through the economy. | |  | c. | the government redistributes taxes to individuals and other levels of government to meet the needs of society. | |  | d. | education and training of the work forces raises labor productivity. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 207. In the circular-flow diagram, the flow of money going to each sector or market is \_\_\_\_\_ the flow of money coming out of that sector or market.   |  |  |  | | --- | --- | --- | |  | a. | the same as | |  | b. | more than | |  | c. | less than | |  | d. | not related to |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 208. In the circular-flow diagram, a decision-making unit consisting of an individual or group of individuals is considered a:   |  |  |  | | --- | --- | --- | |  | a. | market. | |  | b. | factor. | |  | c. | household. | |  | d. | business. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 209. In the circular-flow diagram, a household is a(n):   |  |  |  | | --- | --- | --- | |  | a. | entity that sells goods and services. | |  | b. | individual or group of people who share their income. | |  | c. | entity that purchases factors of production. | |  | d. | member of a group that is prohibited from buying imported goods and services. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 210. In the circular-flow diagram, the factor market is where:   |  |  |  | | --- | --- | --- | |  | a. | households buy factors of production. | |  | b. | households buy goods and services. | |  | c. | businesses buy goods and services. | |  | d. | businesses buy factors of production. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 211. Firms buy inputs in the:   |  |  |  | | --- | --- | --- | |  | a. | factor market. | |  | b. | product market. | |  | c. | goods market. | |  | d. | foreign exchange market. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 212. Tessa is paid $14.25 an hour to work at a retail store. In the circular-flow diagram, this is an example of a:   |  |  |  | | --- | --- | --- | |  | a. | business selling goods and services in the product market. | |  | b. | household buying goods and services in the product market. | |  | c. | household buying goods and services in the factor market. | |  | d. | household selling a resource in the factor market. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 213. Marcia spends $25 on toys for her cat to play with. This is an example of a:   |  |  |  | | --- | --- | --- | |  | a. | business buying goods and services in the product market. | |  | b. | household buying goods and services in the product market. | |  | c. | household buying goods and services in the factor market. | |  | d. | household selling a resource in the factor market. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 214. Which of the following is sold in the factor market?   |  |  |  | | --- | --- | --- | |  | a. | hot dogs | |  | b. | iPads | |  | c. | coffee mugs | |  | d. | labor |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 215. Which of the following is sold in the factor market?   |  |  |  | | --- | --- | --- | |  | a. | club sandwiches | |  | b. | tractors | |  | c. | nail polish removal | |  | d. | prescription medications |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 216. Which of the following is sold in the product market?   |  |  |  | | --- | --- | --- | |  | a. | farmland | |  | b. | factory workers | |  | c. | computers | |  | d. | human capital |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 217. Which of the following is sold in the product market?   |  |  |  | | --- | --- | --- | |  | a. | footballs | |  | b. | lawnmowers | |  | c. | tractors | |  | d. | higher education |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 218. In the circular-flow diagram, households buy \_\_\_\_\_ in the \_\_\_\_\_ market.   |  |  |  | | --- | --- | --- | |  | a. | goods and services; product | |  | b. | goods and services; factor | |  | c. | resources; factor | |  | d. | resources; product |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 219. In the circular-flow diagram, households receive money for selling resources in the \_\_\_\_\_ market.   |  |  |  | | --- | --- | --- | |  | a. | product | |  | b. | money | |  | c. | factor | |  | d. | output |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 220. In the circular-flow diagram, firms buy \_\_\_\_\_ in the factor market.   |  |  |  | | --- | --- | --- | |  | a. | goods and services | |  | b. | financial services | |  | c. | finished products | |  | d. | resources |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 221. Which statement is positive? Which statement is normative?  I. Government spending on defense was $500 billion in 2019.  II. The federal government should spend more on defense to protect us from our enemies.   |  |  |  | | --- | --- | --- | |  | a. | I is positive; II is normative. | |  | b. | I is positive; II is positive. | |  | c. | I is normative; II is positive. | |  | d. | I is normative; II is normative. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 222. Which statement is normative?   |  |  |  | | --- | --- | --- | |  | a. | The number of women in the labor force increased markedly during the past 100 years. | |  | b. | The federal minimum wage is higher today than it was 20 years ago. | |  | c. | Children in the United States are mandated by law to attend school until they reach a certain age. | |  | d. | The best way to encourage growth in the economy is through education. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 223. Which statement is normative?   |  |  |  | | --- | --- | --- | |  | a. | The minimum wage has not kept pace with economic growth. | |  | b. | The minimum wage is necessary to help fight poverty. | |  | c. | The minimum wage can cause lower employment for teens. | |  | d. | As the minimum wages rises, so too does the price of fast-food. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 224. Which statement is normative?   |  |  |  | | --- | --- | --- | |  | a. | International trade leads to consumption outside a country’s production possibility frontier. | |  | b. | Higher expenditures on education will reduce unemployment. | |  | c. | To become more economically independent, we should reduce our dependence on foreign oil. | |  | d. | Increased spending on health care will lead to a healthier population. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 225. Which statement is positive?   |  |  |  | | --- | --- | --- | |  | a. | The rate of inflation is 4%. | |  | b. | A high rate of growth in our economy will solve many of the economic woes we face. | |  | c. | Health care is a right for all citizens. | |  | d. | Professional athletes should not be paid more than world leaders. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 226. Which statement is positive?   |  |  |  | | --- | --- | --- | |  | a. | Policymakers should aim for a 4% inflation rate. | |  | b. | High economic growth is a more important economic goal that low inflation. | |  | c. | The federal government spends $500 billion on education per year. | |  | d. | Health care is a right of all citizens. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 227. Saying that an unemployment rate of 8% is too high is:   |  |  |  | | --- | --- | --- | |  | a. | a normative statement. | |  | b. | a positive statement. | |  | c. | the circular-flow model. | |  | d. | an example of absolute advantage. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 228. Which statement is normative?   |  |  |  | | --- | --- | --- | |  | a. | The federal government is too large and wasteful and should play a smaller role in the economy. | |  | b. | The rate of unemployment has increased. | |  | c. | The president of the United States is subject to the same laws as all citizens. | |  | d. | New housing starts were up by 3% last year. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 229. Which statement is positive?   |  |  |  | | --- | --- | --- | |  | a. | The low income cutoff for a family of four is $36,000. | |  | b. | A low unemployment rate is an important economic goal for the country. | |  | c. | Everyone in the country should have a job if they want it. | |  | d. | Professional athletes should not be paid more than the president. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 230. Statements that make value judgments are:   |  |  |  | | --- | --- | --- | |  | a. | pecuniary. | |  | b. | positive. | |  | c. | nominal. | |  | d. | normative. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 231. Which statement is normative?   |  |  |  | | --- | --- | --- | |  | a. | The rate of inflation is 3%. | |  | b. | The price of gasoline should be less than $2 per gallon. | |  | c. | The federal government spends one-third of its budget on education. | |  | d. | Twenty percent of Americans lack access to higher education. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 232. “The current trade deficit of $350 billion is too high” is a \_\_\_\_\_ statement.   |  |  |  | | --- | --- | --- | |  | a. | normative | |  | b. | *ceteris paribus* | |  | c. | positive | |  | d. | marginal |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 233. “The current trade deficit is $350 billion.” This statement:   |  |  |  | | --- | --- | --- | |  | a. | is positive. | |  | b. | is normative. | |  | c. | involves a value judgment. | |  | d. | is a personal reflection and has no value in economics. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 234. “Unemployment decreased to its lowest level in 10 years last month.” This statement is a(n):   |  |  |  | | --- | --- | --- | |  | a. | example of an opportunity cost. | |  | b. | positive economic statement. | |  | c. | normative economic statement. | |  | d. | value judgment. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 235. Economists who are asked to choose between the existing income tax structure or moving to a value-added tax may disagree about these policies because:   |  |  |  | | --- | --- | --- | |  | a. | they make the same value judgments about the desirability of the policies. | |  | b. | they base their conclusions on models that make different assumptions. | |  | c. | economists often take opposing points of view to ensure a comprehensive discussion. | |  | d. | economists are trained to make simplifying assumptions and ignore reality. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 236. Economists may disagree about policies because they:   |  |  |  | | --- | --- | --- | |  | a. | approach issues using the same sets of values. | |  | b. | use different economic models. | |  | c. | disagree for the sake of discussion. | |  | d. | only consider issues in positive economics and not normative economics. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 237. The purpose of simplifying assumptions in economic models is to:   |  |  |  | | --- | --- | --- | |  | a. | prevent misleading media coverage. | |  | b. | eliminate the need to test models. | |  | c. | abstract from complicating phenomena that may obscure the systematic economic relationships under study. | |  | d. | evaluate positive outcomes. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 238. Economists can simulate how the economy works, using a(n):   |  |  |  | | --- | --- | --- | |  | a. | experiment. | |  | b. | computer program. | |  | c. | mathematical model. | |  | d. | all of these. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 239. An economic model is tested by   |  |  |  | | --- | --- | --- | |  | a. | examining the plausibility of its assumptions. | |  | b. | comparing forecasts the model makes to actual outcomes. | |  | c. | ensuring that the variables used are representative of the economy. | |  | d. | the economic advisory board of the president. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 240. The “other things equal” assumption means that:   |  |  |  | | --- | --- | --- | |  | a. | the buyer alone is responsible for checking the quality and suitability of goods before purchase. | |  | b. | all participants in the model start out with the same amount of money. | |  | c. | utility is constant across similar consumers. | |  | d. | relevant variables other than those examined do not change. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 241. Suppose there are two possible models of the American economy, model *A* and model *B*. We can conclude that model *A* is a better representation of reality than model *B* if   |  |  |  | | --- | --- | --- | |  | a. | it contains more variables than model *B*, so that it has more real-world applications. | |  | b. | it has fewer assumptions than model *B*. | |  | c. | its forecasts more closely resemble observed facts than those of model *B*. | |  | d. | it is preferred by academics. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 242. When choosing among alternative models, economists generally prefer models that   |  |  |  | | --- | --- | --- | |  | a. | include assumptions that most closely resemble reality. | |  | b. | feature complex mathematics, to ensure that nothing is missed. | |  | c. | contain very few assumptions, to keep the analysis simple. | |  | d. | are rooted in economic pragmatism. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 243. Any point inside a production possibility frontier is:   |  |  |  | | --- | --- | --- | |  | a. | attainable but inefficient. | |  | b. | attainable and efficient. | |  | c. | preferred to points outside the production possibility frontier. | |  | d. | is characterized by high opportunity costs. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 244. Suppose that residents of Washington are operating on their production possibility frontier, and they want to increase their production of both salmon and apples. This can only occur if:   |  |  |  | | --- | --- | --- | |  | a. | new resources become available. | |  | b. | there is a technological advance that increases productivity. | |  | c. | new resources become available, and/or there is a technological advance that increases productivity. | |  | d. | new resources become available, and there is a technological advance that increases productivity. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 245. A bowed-out production possibility frontier for an economy that produces only meat and potatoes shows that the \_\_\_\_\_ of potatoes in terms of meat increases as more potatoes are produced and that the opportunity cost of meat in terms of potatoes \_\_\_\_\_ as more potatoes are produced.   |  |  |  | | --- | --- | --- | |  | a. | opportunity cost; increases | |  | b. | opportunity cost; decreases | |  | c. | inherent cost; increases | |  | d. | inherent cost; decreases |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 246. If the United States is more productive than Canada in all lines of production, then the United States can still benefit from trade with Canada as:   |  |  |  | | --- | --- | --- | |  | a. | Canada will have an absolute advantage in some areas of production. | |  | b. | Canada will have a comparative advantage in some areas of production. | |  | c. | the trade agreement between the United States and Canada ensures that each country can access the other country’s market. | |  | d. | all of these are valid reasons. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 247. In general, the production possibility frontier of an economy that produces only two goods is negatively sloped because:   |  |  |  | | --- | --- | --- | |  | a. | the quantity of a good purchased decreases as its price falls. | |  | b. | the opportunity cost of a good increases as more of it is produced. | |  | c. | some resources are misallocated. | |  | d. | the amount of capital in the economy is fixed. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 248. Aaron and Betty can both produce beer and wine. Aaron has a comparative advantage in the production of beer if   |  |  |  | | --- | --- | --- | |  | a. | Aaron is faster than Betty at producing beer. | |  | b. | the amount by which Aaron must reduce the production of wine is less than the amount by which Betty must reduce the production of wine to produce an additional unit of beer. | |  | c. | Betty has superior knowledge of how to produce beer. | |  | d. | Aaron prefers beer to wine. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 249. (Table: Pineapple and Banana Production Possibilities) Use Table: Pineapple and Banana Production Possibilities. The table shows the maximum number of pineapples or bananas that Laura and Lindsay can produce when each produces only one good. The table implies that Lindsay has an absolute advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Pineapple and Banana Production Possibilities** | | | |  | **Pineapples** | **Bananas** | | Laura | 12 | 8 | | Lindsay | 5 | 5 |  |  |  |  | | --- | --- | --- | |  | a. | bananas only. | |  | b. | pineapples only. | |  | c. | both bananas and pineapples. | |  | d. | neither bananas nor pineapples. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 250. (Table: Pineapple and Banana Production Possibilities) Use Table: Pineapple and Banana Production Possibilities. The table shows the maximum number of pineapples or bananas that Laura and Lindsay can produce when each produces only one good. The table implies that Laura has an absolute advantage in the production of:   |  |  |  | | --- | --- | --- | | **Table: Pineapple and Banana Production Possibilities** | | | |  | **Pineapples** | **Bananas** | | Laura | 12 | 8 | | Lindsay | 5 | 5 |  |  |  |  | | --- | --- | --- | |  | a. | bananas only. | |  | b. | pineapples only. | |  | c. | both bananas and pineapples. | |  | d. | neither bananas nor pineapples. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 251. Avery has an absolute advantage in producing a good when she:   |  |  |  | | --- | --- | --- | |  | a. | has a comparative advantage in producing the good. | |  | b. | can produce the good at a lower opportunity cost than anyone else. | |  | c. | can produce more of the good, using the same quantity of inputs, than anyone else. | |  | d. | has exclusive rights to sell the good. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 252. The principle of comparative advantage suggests that if New York trades taxi parts to Florida in exchange for oranges, then:   |  |  |  | | --- | --- | --- | |  | a. | New York has an absolute advantage in taxi parts, and Florida has a comparative advantage in oranges. | |  | b. | New York has a comparative advantage in taxi parts, and Florida has a comparative advantage in oranges. | |  | c. | New York has a comparative advantage in taxi parts, and Florida has an absolute advantage in oranges. | |  | d. | New York has an absolute advantage in taxi parts, and Florida has an absolute advantage in oranges. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 253. An individual with an absolute advantage in the production of all goods will:   |  |  |  | | --- | --- | --- | |  | a. | have a comparative advantage in the production of all goods. | |  | b. | not be able to gain from specialization. | |  | c. | not face increasing opportunity costs. | |  | d. | have a comparative advantage in the production of some goods but not others. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 254. One of the main functions of the market for goods and services is to enable:   |  |  |  | | --- | --- | --- | |  | a. | the sale of factors of production. | |  | b. | the sale of goods but not factors of production. | |  | c. | buyers and sellers to exchange information on future sales. | |  | d. | financial transactions. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 255. Factors of production include all of the following EXCEPT \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | tractors used to plow corn fields | |  | b. | money | |  | c. | a corn field in need of irrigation | |  | d. | expertise obtained while studying at a university |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 256. A key feature of the circular-flow diagram is that the money that flows into each sector or market is greater than the money that flows out.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 257. The simple circular-flow diagram ignores a number of real-world complications in the interest of simplicity. Which of the following is NOT one of the factors ignored?   |  |  |  | | --- | --- | --- | |  | a. | That the distinction between firms and households isn’t always clear-cut. | |  | b. | The role of the market for goods and services in the circular flow. | |  | c. | That many sales that firms make are not to households but to other firms. | |  | d. | The role of government (taxation and spending) in the circular flow. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 258. The circular-flow diagram ignores a number of real-world complications in the interest of simplicity. Which of the following factors is ignored?   |  |  |  | | --- | --- | --- | |  | a. | The flows of money between participants. | |  | b. | The role of the market for goods and services in the circular flow. | |  | c. | That many sales that firms make are not to households but to other firms. | |  | d. | The money flows to factors of production. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 259. Trade takes the form of \_\_\_\_\_ when people directly exchange goods and services they \_\_\_\_\_ for goods and services they \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | barter; have; want | |  | b. | barter; want; have | |  | c. | monetary exchange; have; want | |  | d. | monetary exchange; want; have |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 260. In the factor market, firms buy resources to produce goods and services. The main factors of production are:   |  |  |  | | --- | --- | --- | |  | a. | physical capital, labor, human capital, and money. | |  | b. | labor, human capital, government funding, and land. | |  | c. | land, labor, human capital, and financing. | |  | d. | human capital, labor, physical capital, and land. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 261. After Hurricane Katrina, there was extensive damage to much of the infrastructure of the southern United States. How would Katrina have affected the production possibility frontier?   |  |  |  | | --- | --- | --- | |  | a. | an outward shift | |  | b. | an inward shift | |  | c. | a movement along the production possibility frontier | |  | d. | a movement to a point inside the production possibility frontier |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 262. If an economy moves from producing 10 units of milk and 4 units of cheese to producing 7 units of milk and 5 units of cheese, the opportunity cost of the fifth unit of cheese is:   |  |  |  | | --- | --- | --- | |  | a. | seven units of milk. | |  | b. | ten units of milk. | |  | c. | three units of milk. | |  | d. | five units of cheese. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 263. A shift of resources from one industry to another can be shown on the production possibility frontier as:   |  |  |  | | --- | --- | --- | |  | a. | an outward shift. | |  | b. | an inward shift. | |  | c. | a movement along the production possibility frontier. | |  | d. | a movement to a point inside the production possibility frontier. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 264. As a consequence of repeated poor harvests of cherries in Washington, many cherry farmers decided to move out of cherry farming and into apple farming. What would be the effect of moving from cherry production to apple production on the production possibility frontier?   |  |  |  | | --- | --- | --- | |  | a. | an outward shift | |  | b. | an inward shift | |  | c. | a movement along the production possibility frontier | |  | d. | a movement to a point inside the production possibility frontier |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 265. Which of the following is a positive statement?   |  |  |  | | --- | --- | --- | |  | a. | Rent-controlled apartments create a black market in the supply of housing. | |  | b. | Rent control is better than free market rental. | |  | c. | Apartments are too costly in New York City. | |  | d. | Landlords in Seattle should be able to charge any rental price they want. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 266. Statements about the way the economy should work are generally referred to as:   |  |  |  | | --- | --- | --- | |  | a. | positive economics. | |  | b. | normative economics. | |  | c. | experimental economics. | |  | d. | forecast economics. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 267. Statements about the way the economy actually works are generally referred to as:   |  |  |  | | --- | --- | --- | |  | a. | positive economics. | |  | b. | normative economics. | |  | c. | experimental economics. | |  | d. | forecast economics. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 268. Which of the following statements is normative?   |  |  |  | | --- | --- | --- | |  | a. | Scientists should not make normative statements. | |  | b. | Too much sun will damage your skin. | |  | c. | As cell phone prices fall, people generally buy more of them. | |  | d. | Insurance rates drop when you turn 25. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 269. A normative statement is a statement regarding:   |  |  |  | | --- | --- | --- | |  | a. | what is. | |  | b. | the normalizing assumptions of an economic model. | |  | c. | what should be. | |  | d. | the forecast of a model. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 270. A positive statement is a statement regarding:   |  |  |  | | --- | --- | --- | |  | a. | what is. | |  | b. | the normalizing assumptions of an economic model. | |  | c. | what should be. | |  | d. | the forecast of a model. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 271. Economists use models to explain real-life situations because:   |  |  |  | | --- | --- | --- | |  | a. | models powerfully capture the complexities of the real world. | |  | b. | the mathematical rigor of model-building provides economists with an intellectual challenge. | |  | c. | by simplifying reality, models enable economists to isolate particular relationships between variables, helping them sort out cause and effect. | |  | d. | models are aesthetically pleasing and so provide economists with an artistic outlet. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 272. Economic models:   |  |  |  | | --- | --- | --- | |  | a. | vary greatly in their assumptions and simplifications. | |  | b. | are often correct in minute detail. | |  | c. | provide the same answer to a given question, regardless of differences in assumptions. | |  | d. | often provide little insight into the real-life scenarios they are supposed to help explain. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 273. Avery has a straight-line, or linear, production possibility frontier when he produces lima beans and cranberries. If he uses all of his resources to grow lima beans, he can produce 200 bushels of lima beans; if he uses all of his resources for cranberry production, he can produce 400 bushels of cranberries. Avery CANNOT produce \_\_\_\_\_ bushels of lima beans and \_\_\_\_\_ bushels of cranberries.   |  |  |  | | --- | --- | --- | |  | a. | 200; 0 | |  | b. | 200; 600 | |  | c. | 0; 400 | |  | d. | 100; 200 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 274. Gertrude has a linear production possibility frontier when she produces sunflowers and garbanzo beans. If she uses all of her resources, she can produce 400 bushels of sunflowers or 800 bushels of garbanzo beans. Gertrude is NOT producing efficiently if she produces \_\_\_\_\_ bushels of sunflowers and \_\_\_\_\_ bushels of garbanzo beans.   |  |  |  | | --- | --- | --- | |  | a. | 400; 0 | |  | b. | 200; 400 | |  | c. | 200; 200 | |  | d. | 0; 800 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 275. Avery has a linear production possibility frontier in wood carvings and gardening gnomes. In one hour, she can produce 5 wood carvings or 10 gardening gnomes. What is the opportunity cost to make 1 gnome?   |  |  |  | | --- | --- | --- | |  | a. | 5 wood carvings | |  | b. | 10 gnomes | |  | c. | 0.5 wood carvings | |  | d. | 2 gnomes |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 276. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. What is the maximum number of cowboy hats Smallville can produce?   |  |  | | --- | --- | | **Scenario: Linear Production Possibility Frontier** | | | Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat. | | | **Number of hours of labor to produce on pair of pants** | **Number of hours of labor to produce one cowboy hat** | | 4 | 2 |  |  |  |  | | --- | --- | --- | |  | a. | 40 | |  | b. | 20 | |  | c. | 2 | |  | d. | 4 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 277. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Smallville decides to devote half of its labor time to the production of cowboy hats and half to the production of pants, it can produce \_\_\_\_\_ pants and \_\_\_\_\_ cowboy hats.   |  |  | | --- | --- | | **Scenario: Linear Production Possibility Frontier** | | | Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat. | | | **Number of hours of labor to produce on pair of pants** | **Number of hours of labor to produce one cowboy hat** | | 4 | 2 |  |  |  |  | | --- | --- | --- | |  | a. | 10; 20 | |  | b. | 20; 10 | |  | c. | 30; 30 | |  | d. | 0; 30 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 278. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Smallville’s labor resource decrease by 40 hours, the opportunity cost of producing shirts:   |  |  | | --- | --- | | **Scenario: Linear Production Possibility Frontier** | | | Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat. | | | **Number of hours of labor to produce on pair of pants** | **Number of hours of labor to produce one cowboy hat** | | 4 | 2 |  |  |  |  | | --- | --- | --- | |  | a. | increases. | |  | b. | decreases. | |  | c. | does not change. | |  | d. | may or may not change, depending upon the number of cowboy hats it wishes to produce. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 279. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. Smallville CANNOT produce \_\_\_\_\_ pairs of pants and \_\_\_\_\_ cowboy hats.   |  |  | | --- | --- | | **Scenario: Linear Production Possibility Frontier** | | | Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat. | | | **Number of hours of labor to produce on pair of pants** | **Number of hours of labor to produce one cowboy hat** | | 4 | 2 |  |  |  |  | | --- | --- | --- | |  | a. | 20; 0 | |  | b. | 40; 40 | |  | c. | 0; 40 | |  | d. | 10; 20 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 280. Cowansville has a linear production possibility frontier in the production of cheese and yogurt. It can produce 6 packages of cheese per hour or 8 cups of yogurt per hour. Suppose it has 240 hours of labor and divides labor hours equally between the production of cheese and the production of yogurt. What is the MAXIMUM number of cups of yogurt it can produce in the time it has allocated to yogurt production?   |  |  |  | | --- | --- | --- | |  | a. | 960 | |  | b. | 30 | |  | c. | 720 | |  | d. | 6 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 281. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. The table shows the production possibility frontier for Nutley Township. Suppose Nutley Township produces 5 bushels of zucchini and 50 bushels of eggplant; this combination is:   |  |  |  | | --- | --- | --- | | **Table: Production of Zucchini and Eggplant in Nutley Township** | | | | **Combination** | **Zucchini** | **Eggplant** | | A | 0 | 75 | | B | 5 | 70 | | C | 10 | 60 | | D | 15 | 45 | | E | 20 | 25 | | F | 25 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | feasible but inefficient. | |  | b. | feasible and efficient. | |  | c. | not feasible but efficient. | |  | d. | neither feasible nor efficient. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 282. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. This table shows the production possibility frontier for Nutley Township. Suppose Nutley Township produces 15 bushels of zucchini and 45 bushels of eggplant; this combination is:   |  |  |  | | --- | --- | --- | | **Table: Production of Zucchini and Eggplant in Nutley Township** | | | | **Combination** | **Zucchini** | **Eggplant** | | A | 0 | 75 | | B | 5 | 70 | | C | 10 | 60 | | D | 15 | 45 | | E | 20 | 25 | | F | 25 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | both allocatively and productively efficient. | |  | b. | productively efficient. | |  | c. | allocatively efficient. | |  | d. | neither productively nor allocatively efficient. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 283. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. This table shows the production possibility frontier for Nutley Township. Suppose Nutley Township initially produces combination *C* and moves to combination *D*. What is the opportunity cost of this move?   |  |  |  | | --- | --- | --- | | **Table: Production of Zucchini and Eggplant in Nutley Township** | | | | **Combination** | **Zucchini** | **Eggplant** | | A | 0 | 75 | | B | 5 | 70 | | C | 10 | 60 | | D | 15 | 45 | | E | 20 | 25 | | F | 25 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 15 bushels of eggplant | |  | b. | 5 bushels of zucchini | |  | c. | 15 bushels of zucchini | |  | d. | 45 bushels of eggplant |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 284. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. The table shows the production possibility frontier for Nutley Township. Suppose Nutley Township produces combination *F*. What is the opportunity cost of a move to combination *E*?   |  |  |  | | --- | --- | --- | | **Table: Production of Zucchini and Eggplant in Nutley Township** | | | | **Combination** | **Zucchini** | **Eggplant** | | A | 0 | 75 | | B | 5 | 70 | | C | 10 | 60 | | D | 15 | 45 | | E | 20 | 25 | | F | 25 | 0 |  |  |  |  | | --- | --- | --- | |  | a. | 5 bushels of zucchini | |  | b. | 20 bushels of zucchini | |  | c. | 25 bushels of eggplant | |  | d. | 0 bushels of eggplant |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 285. If an economy produces the desired mix of goods from its available resources, this mix of goods is:   |  |  |  | | --- | --- | --- | |  | a. | allocatively efficient. | |  | b. | both productively and allocatively efficient. | |  | c. | productively efficient. | |  | d. | neither productively nor allocatively efficient. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 286. (Scenario: The United States and Germany) Use Scenario: The United States and Germany. Given this information, \_\_\_\_\_ has a comparative advantage in the production of barley, and \_\_\_\_\_ has a comparative advantage in the production of aluminum.   |  | | --- | | **Scenario: The United States and Germany** | | Two countries, the United States and Germany, produce two goods, barley (B) and aluminum (A). Each has a linear production possibility frontier in both goods. If the United States spends all of its available resources to produce barley, it can produce 500 tons of aluminum. If it uses all of its resources to produce aluminum, it can produce 250 tons of aluminum and no barley. If Germany spends all of its available resources producing barley, it can produce 400 tons of barley, and if it spends all of its resources on the production of aluminum, it can produce 400 tons of aluminum. |  |  |  |  | | --- | --- | --- | |  | a. | the United States; the United States | |  | b. | the United States; Germany | |  | c. | Germany; Germany | |  | d. | Germany; the United States |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 287. (Scenario: The United States and Germany) Use Scenario: The United States and Germany. If each devotes half of its resources to the production of barley and half to the production of aluminum, then their combined total production of barley will be \_\_\_\_\_ tons, and their combined total production of aluminum will be \_\_\_\_\_ tons.   |  | | --- | | **Scenario: The United States and Germany** | | Two countries, the United States and Germany, produce two goods, barley (B) and aluminum (A). Each has a linear production possibility frontier in both goods. If the United States spends all of its available resources to produce barley, it can produce 500 tons of aluminum. If it uses all of its resources to produce aluminum, it can produce 250 tons of aluminum and no barley. If Germany spends all of its available resources producing barley, it can produce 400 tons of barley, and if it spends all of its resources on the production of aluminum, it can produce 400 tons of aluminum. |  |  |  |  | | --- | --- | --- | |  | a. | 450; 325 | |  | b. | 900; 650 | |  | c. | 500; 250 | |  | d. | 400; 400 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 288. (Scenario: The United States and Germany) Use Scenario: The United States and Germany. If Germany produces 300 tons of aluminum, how many tons of barley can it produce?   |  | | --- | | **Scenario: The United States and Germany** | | Two countries, the United States and Germany, produce two goods, barley (B) and aluminum (A). Each has a linear production possibility frontier in both goods. If the United States spends all of its available resources to produce barley, it can produce 500 tons of aluminum. If it uses all of its resources to produce aluminum, it can produce 250 tons of aluminum and no barley. If Germany spends all of its available resources producing barley, it can produce 400 tons of barley, and if it spends all of its resources on the production of aluminum, it can produce 400 tons of aluminum. |  |  |  |  | | --- | --- | --- | |  | a. | 100 | |  | b. | 200 | |  | c. | 300 | |  | d. | 400 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 289. (Scenario: The United States and Germany) Use Scenario: The United States and Germany. If the United States and Germany both specialize and trade:   |  | | --- | | **Scenario: The United States and Germany** | | Two countries, the United States and Germany, produce two goods, barley (B) and aluminum (A). Each has a linear production possibility frontier in both goods. If the United States spends all of its available resources to produce barley, it can produce 500 tons of aluminum. If it uses all of its resources to produce aluminum, it can produce 250 tons of aluminum and no barley. If Germany spends all of its available resources producing barley, it can produce 400 tons of barley, and if it spends all of its resources on the production of aluminum, it can produce 400 tons of aluminum. |  |  |  |  | | --- | --- | --- | |  | a. | only the United States will gain. | |  | b. | only Germany will gain. | |  | c. | the United States and Germany will gain if they both specialize in the good in which they have a comparative advantage. | |  | d. | neither will gain. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 290. (Scenario: The United States and Germany) Use Scenario: The United States and Germany. Given this information, the country that has the absolute advantage in barley is \_\_\_\_\_, and the country that has the absolute advantage in aluminum is \_\_\_\_\_.   |  | | --- | | **Scenario: The United States and Germany** | | Two countries, the United States and Germany, produce two goods, barley (B) and aluminum (A). Each has a linear production possibility frontier in both goods. If the United States spends all of its available resources to produce barley, it can produce 500 tons of aluminum. If it uses all of its resources to produce aluminum, it can produce 250 tons of aluminum and no barley. If Germany spends all of its available resources producing barley, it can produce 400 tons of barley, and if it spends all of its resources on the production of aluminum, it can produce 400 tons of aluminum. |  |  |  |  | | --- | --- | --- | |  | a. | the United States; the United States | |  | b. | the United States; Germany | |  | c. | Germany; Germany | |  | d. | Germany; the United States |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 291. Positive economics:   |  |  |  | | --- | --- | --- | |  | a. | makes prescriptions about how the economy should work. | |  | b. | involves model building based on assumptions that have been proven true. | |  | c. | is the branch of economic analysis that describes how the economy actually works. | |  | d. | is the same as positive externalities. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 292. Normative economics:   |  |  |  | | --- | --- | --- | |  | a. | makes prescriptions about how the economy should work. | |  | b. | involves model building based on assumptions that have been proven true. | |  | c. | is the branch of economic analysis that describes how the economy actually works. | |  | d. | is the same as positive externalities. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 293. Which statement(s) reflect(s) a normative view?  I. The United States should increase spending on education to 15% of gross domestic product.  II. There is a federal minimum wage in the United States.  III. The minimum wage in Washington state is $12 per hour.   |  |  |  | | --- | --- | --- | |  | a. | I, II, and III | |  | b. | None is normative. | |  | c. | I and II | |  | d. | I |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 294. Explain how countries like El Salvador, Sri Lanka, or Bangladesh, which are much less productive than the United States, make much of our clothing.   |  |  | | --- | --- | | *ANSWER:* | The answer is “comparative advantage.” Just about every industry in Bangladesh is much less productive than the corresponding industry in the United States. But the productivity difference between rich and poor countries varies across goods; it is very large in the production of sophisticated goods like aircraft but not that large in the production of simpler goods like clothing. So Bangladesh’s position with regard to clothing production is like Embraer’s position with regard to producing small jets: it’s not as good at it as Boeing, but it’s the thing Embraer does comparatively well. Although Bangladesh is at an absolute disadvantage compared with the United States in almost everything, it has a comparative advantage in clothing production. This means that both the United States and Bangladesh can consume more because they specialize in producing different things, with Bangladesh supplying our clothes and the United States supplying Bangladesh with more sophisticated goods. | |

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| 295. Consider a point inside the production possibility frontier for a simple economy that produces only two goods, cheese and wine. Why is this point described as feasible but not efficient?   |  |  | | --- | --- | | *ANSWER:* | Any point that lies inside the frontier is feasible. This simply means that the economy has the resources and technology to produce this combination of goods. However, it is not efficient because more of one good could be produced without sacrificing any of the other good. In fact, more of both goods could be produced by moving to a point on the frontier above and to the right of the point inside the frontier. | |

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| 296. Explain why economists believe that production possibility frontiers have a bowed-out curvature rather than a straight line.   |  |  | | --- | --- | | *ANSWER:* | As an economy produces more and more of one good, the opportunity cost of that good, in terms of the other goods sacrificed to make it, begins to rise. One reason for this principle is that resources (land, labor, capital) are not equally well suited to producing all goods. Because some resources are better suited to producing cheese (and ill-suited to producing yogurt), they will be employed in the production of the first unit of cheese. This causes a large increase in the production of cheese at a cost of very little lost production of yogurt. However, as the production of cheese increases, it is necessary to use resources that were very well-suited to producing yogurt and not very well-suited to producing cheese. The consequence is a very small increase in the production of cheese at a very large cost in lost production of yogurt. | |

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| 297. Leaders of a small town are tired of looking at a vacant and dilapidated warehouse that sits on a prime piece of real estate. The town finds an investor who purchases the warehouse and promises to renovate the old building and build condominiums in it. Is this economic growth?   |  |  | | --- | --- | | *ANSWER:* | A politician would probably tell you that it is economic growth, but an economist might disagree. The land and building are unproductive. You might imagine that this indicates that the town is operating inside its production possibility frontier. When the land is purchased and made productive again, the town’s output combination moves out toward the frontier, but the frontier itself does not move outward. Simply put, this is not economic growth, but it is a more efficient use of resources. | |

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| 298. Explain how technological progress is a source of economic growth.   |  |  | | --- | --- | | *ANSWER:* | Suppose a nation’s factors of production (land, labor, capital, and human capital) are fixed, but its collective technology improves. This means that it can produce more goods and services with a fixed quantity of economic resources. If it can produce more with the same amount of resources, the nation’s productive capacity increases. That is, its production possibility frontier shifts outward. | |

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| 299. (Table: Lobster and Ravioli Production in Maine) Use Table: Lobster and Ravioli Production in Maine. What is the opportunity cost of increasing the production of lobsters from zero to 100? What is the opportunity cost of increasing the production of lobsters from 400 to 500? Explain the difference in your answers.  ​   |  |  | | --- | --- | | **Table: Lobster and Ravioli Production in Maine** | | | **Lobster Production** | **Ravioli Production** | | 500 | 0 | | 400 | 250 | | 300 | 450 | | 200 | 600 | | 100 | 700 | | 0 | 750 |  |  |  | | --- | --- | | *ANSWER:* | When the region increased production from zero to 100 lobsters, the cost was only 50 units of ravioli. But when Maine increased lobster production from 400 to 500, the cost was a much larger 250 units of raviolis. In other words, the opportunity cost of lobster production rose as more lobsters were produced. The reason is that resources (labor, land, capital, and human capital) are not equally suited to lobster production and ravioli production. A unit of capital, such as a boat, is very good at producing lobsters but terrible at producing ravioli. A square mile of ocean is very good at producing lobsters but useless at producing ravioli. At some point, as you produce more and more lobsters, you start running short of productive resources ideally suited to lobster production, and you have to start using resources less well suited to lobster production. In other words, the opportunity cost of producing a given good rises as you produce more of it (since you are running out of resources that are well-suited to making that good!). | |

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| 300. (Table: Corn and Steel) Use Table: Corn and Steel. The table shows the maximum possible production of corn and steel for both the United States and Canada. Are gains from trade possible between these nations? Explain.  ​   |  |  |  | | --- | --- | --- | | **Table: Corn and Steel** | | | |  | **Corn Production** | **Steel Production** | | **United States** | 100 | 0 | |  | 0 | 100 | |  | **Corn Production** | **Steel Production** | | **Germany** | 50 | 0 | |  | 0 | 100 |   ​  ​   |  |  | | --- | --- | | *ANSWER:* | Yes. The United States has a comparative advantage in the production of corn because its opportunity cost of producing corn is only 1 ton of steel, whereas Canada’s opportunity cost of producing 1 ton of corn is 2 tons of steel. The United States should therefore specialize in corn production. Canada has a comparative advantage in the production of steel because its opportunity cost of producing 1 ton of steel is only 0.5 tons of corn, whereas the United States’ opportunity cost of producing 1 ton of steel is 1 ton of corn. Canada should therefore specialize in steel production. With each country specializing in the good in which it has a comparative advantage, the United States would trade corn to Canada in exchange for steel. By specializing and trading with each other, both Canada and the United States can consume combinations of corn and steel that lie outside their individual production possibility frontiers—that is, more than they could produce in the absence of trade. | |

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| 301. (Table: Lobster and Ravioli Production in Maine) Use Table: Lobster and Ravioli Production in Maine. The table shows the maximum annual output combinations of lobsters and ravioli. Given the scarce resources and limited technology, as Maine uses more resources to produce ravioli, fewer resources are available to produce lobsters. Can this nation produce 200 lobsters and 500 ravioli? Is this efficient? Explain.  ​   |  |  | | --- | --- | | **Table: Lobster and Ravioli Production in Maine\_** | | | **Lobster Production** | **Ravioli Production** | | 500 | 0 | | 400 | 250 | | 300 | 450 | | 200 | 600 | | 100 | 700 | | 0 | 750 |   ​   |  |  | | --- | --- | | *ANSWER:* | Yes, Maine can produce 200 lobsters and 500 ravioli; after all, it can produce 200 lobsters and 600 ravioli. However, producing 200 lobsters and 500 ravioli is not efficient, since if it produces only 500 ravioli, rather than 600 ravioli of which it is capable, there must be idle resources in the economy, so that the nation is operating inside its production possibility frontier. Without losing any lobster production, the nation could, by using its resources more efficiently, produce 100 more ravioli, thereby moving out to its production possibility frontier. | |

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| 302. Consider a nation with a large economy, like the United States, and a nation with a small economy, like Chile. How can the United States, with an absolute advantage in production of almost all goods, benefit from trade with Chile?   |  |  | | --- | --- | | *ANSWER:* | The answer lies not in absolute advantage but comparative advantage. Any time two nations have different opportunity costs in the production of some good, one nation can produce the good more cheaply than the other in terms of opportunity cost. It will then have a comparative advantage in that good. Each nation has a comparative advantage in some goods and a comparative disadvantage in others. Both the United States and Chile can benefit from trade if each nation specializes in goods in which it has a comparative advantage and trades the goods it produces for goods in which it does not have a comparative advantage. | |

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| 303. You are reading an editorial in the *Chicago Tribune*. The editorial says, “The United States had a trade deficit of $79.4 billion in February 2020. This is a clear indication to our leaders that we must renegotiate our trade agreements with Europe to make them fairer for the American worker.” What part of this editorial is positive, and what part is normative?   |  |  | | --- | --- | | *ANSWER:* | The reference to the “trade deficit of $79.4 billion” is positive, as it states a fact and does not imply any value judgment. The statement that “our leaders must renegotiate . . .”, by contrast, is normative. The editorial board is prescribing a course of action for our leaders. There is a clear value judgment that the trade deficit is unfair to U.S. workers and that we should therefore work to remedy it. | |