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| 1. Which question would NOT be considered one of the basic economic questions?   |  |  |  | | --- | --- | --- | |  | a. | Should Brazil continue to produce ethanol? | |  | b. | What production method should be used to make batteries for plug-in cars? | |  | c. | When will the new high-speed train in California be completed? | |  | d. | To whom will the production of solar panels be sold to? |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 2. What does the term "laissez-faire" mean in economics?   |  |  |  | | --- | --- | --- | |  | a. | Government plays a major role regulating businesses to protect consumers. | |  | b. | Government does not intervene in personal decisions, but it controls economic decisions. | |  | c. | The market economy requires intervention to ensure efficiency. | |  | d. | The role of government should be as minimal as possible. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 3. Which of these would NOT be considered a factor of production?   |  |  |  | | --- | --- | --- | |  | a. | mineral deposits | |  | b. | a large copy machine at the office | |  | c. | college graduates seeking a job | |  | d. | a bank loan used to start a new business |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 4. China produces many products at the lowest cost possible, even though Chinese consumers do not desire many of these products (e.g., football helmets). China is achieving   |  |  |  | | --- | --- | --- | |  | a. | production efficiency only. | |  | b. | allocative efficiency only. | |  | c. | both production efficiency and allocative efficiency. | |  | d. | neither production efficiency nor allocative efficiency. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 5. Why is entrepreneurial ability considered a factor of production?   |  |  |  | | --- | --- | --- | |  | a. | because it is a physical input such as land, labor, and capital | |  | b. | because entrepreneurs assume the risk of producing output, an important part of the production process | |  | c. | because entrepreneurs work very long hours and demand large profits for the work that they accomplish | |  | d. | because it is an input that can be used by itself to produce many goods and services desired by society |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 6. Which question would be considered one of three basic economic questions every society must answer?   |  |  |  | | --- | --- | --- | |  | a. | Where should the next Amazon headquarters be located? | |  | b. | How often should roads and bridges be replaced? | |  | c. | What is the best way to maximize soybean production? | |  | d. | How high should interest rates be? |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 7. In which market system does the government play the smallest role in regulating businesses?   |  |  |  | | --- | --- | --- | |  | a. | capitalist | |  | b. | socialist | |  | c. | planned | |  | d. | communist |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 8. Which would not be considered one of the primary factors of production?   |  |  |  | | --- | --- | --- | |  | a. | entrepreneurial ability | |  | b. | financial securities | |  | c. | capital | |  | d. | land |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 9. Suppose France has achieved the ability to produce baseball bats at the lowest possible resource cost, but hardly anyone in France plays baseball. This means that France has achieved   |  |  |  | | --- | --- | --- | |  | a. | both production and allocative efficiency. | |  | b. | neither production nor allocative efficiency. | |  | c. | production efficiency but not allocative efficiency. | |  | d. | allocative efficiency but not production efficiency. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 10. Which combination between factors of production and their payment is INCORRECT?   |  |  |  | | --- | --- | --- | |  | a. | land – rent | |  | b. | labor – wages | |  | c. | capital – interest | |  | d. | entrepreneurial ability – dividends |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 11. (Figure) What would be a reason an economy is operating at point *D*?   |  |  |  | | --- | --- | --- | |  | a. | A reduction in business investment causes unemployment to increase. | |  | b. | There is a new technological breakthrough in the production of energy-efficient airplanes. | |  | c. | An economy uses all of its inputs efficiently but changes the ratio of the goods produced. | |  | d. | An economy experiences an influx of immigrants seeking jobs. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 12. (Figure) The area between which two points on the production possibilities frontier could represent an improvement in productive efficiency?   |  |  |  | | --- | --- | --- | |  | a. | from *A* to *B* | |  | b. | from *B* to *C* | |  | c. | from *C* to *B* | |  | d. | from *D* to *B* |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 13. (Figure) The area between which two points on the PPF could represent an improvement in allocative efficiency?   |  |  |  | | --- | --- | --- | |  | a. | from *A* to *B* | |  | b. | from *A* to *C* | |  | c. | from *B* to *C* | |  | d. | from *B* to *D* |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 14. Which of these would be LEAST likely to increase economic growth?   |  |  |  | | --- | --- | --- | |  | a. | an increase in investment in infrastructure such as new roads and rail lines | |  | b. | an increase in tariffs to protect domestic industries from foreign competition | |  | c. | an expansion of financial aid options to college students | |  | d. | protecting intellectual property rights (such as patents) to provide incentives for innovation |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 15. The main reason a production possibilities frontier would have a concave shape is because   |  |  |  | | --- | --- | --- | |  | a. | of decreasing opportunity costs. | |  | b. | the rate at which one good can be substituted for another is fixed. | |  | c. | as a country specializes in one product, it must give up more of the other. | |  | d. | consumers face diminishing marginal returns in consumption. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 16. If a country's PPF is linear, this means that \_\_\_\_\_ along the PPF.   |  |  |  | | --- | --- | --- | |  | a. | the opportunity cost changes as one moves upward | |  | b. | the opportunity cost changes as one moves downward | |  | c. | diminishing returns to production sets in as one moves in either direction | |  | d. | the opportunity cost remains constant at all points |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 17. If the following two bundles (10, 5) and (7, 9) are located on a country's concave PPF, which bundles could also be on that country's PPF?   |  |  |  | | --- | --- | --- | |  | a. | (8, 3) | |  | b. | (10, 9) | |  | c. | (9, 5) | |  | d. | (3, 12) |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 18. Which factor is MOST likely to shift an entire PPF outward?   |  |  |  | | --- | --- | --- | |  | a. | a natural disaster that disrupts production | |  | b. | a general increase in the price of inputs | |  | c. | a technology improvement in one key industry | |  | d. | a general increase in educational attainment |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 19. Which point on the following PPF best represents production efficiency?   |  |  |  | | --- | --- | --- | |  | a. | A | |  | b. | B | |  | c. | C | |  | d. | D |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 20. A country's choice of producing capital goods versus consumption goods today   |  |  |  | | --- | --- | --- | |  | a. | has no effect on the country's PPF over time because resources are fixed. | |  | b. | would have the same effect on PPF over time since both drive economic growth evenly. | |  | c. | would expand PPF more over time if more consumption goods are produced today. | |  | d. | would expand PPF more over time if more capital goods are produced today. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 21. If a farmer can grow 100 tubs of grapefruit or 250 tubs of oranges per acre of land, what is the opportunity cost of growing one orange?   |  |  |  | | --- | --- | --- | |  | a. | 0.4 orange | |  | b. | 0.4 grapefruit | |  | c. | 2.5 oranges | |  | d. | 2.5 grapefruits |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 22. For a country to have a comparative advantage in a good, it must have   |  |  |  | | --- | --- | --- | |  | a. | more labor to produce that good. | |  | b. | more capital to produce that good. | |  | c. | an ability to produce more of that good than another country has. | |  | d. | a lower opportunity cost of producing that good. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 23. Which scenario is not possible for two countries who trade computers and automobiles with one another?   |  |  |  | | --- | --- | --- | |  | a. | One of the countries has an absolute advantage in the production of both products. | |  | b. | One of the countries has a comparative advantage in the production of both products. | |  | c. | One country has an absolute advantage in one product and a comparative advantage in the other product. | |  | d. | One country does not have an absolute advantage in either product but has a comparative advantage in one product. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 24. Suppose that Costa Rica is able to produce 50,000 pounds of coffee or 10,000 medical devices per day; Vietnam is able to produce 40,000 pounds of coffee or 5,000 medical devices per day. Which statement is TRUE?   |  |  |  | | --- | --- | --- | |  | a. | Costa Rica has an absolute advantage in medical device production, while Vietnam has an absolute advantage in coffee production. | |  | b. | Costa Rica has a comparative advantage in the production of both coffee and medical devices. | |  | c. | Costa Rica has a comparative advantage in coffee production, while Vietnam has a comparative advantage in the production of medical devices. | |  | d. | Costa Rica has a comparative advantage in the production of medical devices, while Vietnam has a comparative advantage in coffee production. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 25. Using the productivity rates for Spain and Portugal, which statement is TRUE?   |  |  |  | | --- | --- | --- | |  | a. | Spain has a comparative advantage in olives. | |  | b. | Portugal has a comparative advantage in olives. | |  | c. | Both Portugal and Spain have a comparative advantage in oranges. | |  | d. | Both Spain and Portugal have a comparative advantage in olives. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 26. The table shows the amount of corn or wheat that Mexico and Canada can produce using one day of labor. The country with an absolute advantage in producing corn is \_\_\_\_\_, and the country with an absolute advantage in producing wheat is \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Mexico; Canada | |  | b. | Canada; Mexico | |  | c. | Mexico; Mexico | |  | d. | Canada; Canada |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 27. The table shows the amount of cherries or apples that Chile and Argentina can produce using one day of labor. The opportunity cost of producing 1 cherry is \_\_\_\_\_ in Chile and \_\_\_\_\_ in Argentina. \_\_\_\_\_ has a comparative advantage in cherry production.   |  |  |  | | --- | --- | --- | |  | a. | 2 apples; 3 apples; Chile | |  | b. | 2 apples; 3 apples; Argentina | |  | c. | 0.5 apple; 0.33 apple; Chile | |  | d. | 0.5 apple; 0.33 apple; Argentina |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 28. When two countries specialize and trade based on their comparative advantage   |  |  |  | | --- | --- | --- | |  | a. | both countries would move to a different point on the existing PPF. | |  | b. | the country with the greater comparative advantage moves beyond its PPF while the other falls below it. | |  | c. | both countries remain at their original point on the PPF because trade primarily affects consumption. | |  | d. | both countries are able to consume at a point beyond the original PPF. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 29. Which group is most likely to be harmed by international trade?   |  |  |  | | --- | --- | --- | |  | a. | consumers who buy imported goods for consumption | |  | b. | businesses who buy imported raw materials for production | |  | c. | businesses who produce goods that compete against imports | |  | d. | businesses that produce goods primarily for export |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 30. Which factor does NOT limit the benefits from trade?   |  |  |  | | --- | --- | --- | |  | a. | transportation and communications costs | |  | b. | an increase in product variety and brand choices | |  | c. | increasing opportunity costs from specialization | |  | d. | import restrictions such as tariffs |  |  |  | | --- | --- | | *ANSWER:* | b | |