

Chapter 2—Scarcity, Trade-Offs, and Production Possibilities

MULTIPLE CHOICE

1. Which of the following is NOT a question that scarcity forces all societies to answer?
 - a. How are goods and services to be produced?
 - b. Who will get the goods and services produced?
 - c. How can scarcity be eliminated?
 - d. Which goods and services are to be produced?

ANS: C

PTS: 1

DIF: Easy

REF: p. 36

BLM: Knowledge

2. Three economic questions must be determined in all societies. What are they?
 - a. What goods will be produced? How will goods be produced? For whom will goods be produced?
 - b. What is the opportunity cost of production? Does the society have a comparative advantage in production? Will consumers desire the goods being produced?
 - c. What will the price of each good be? Who will produce each good? Who will consume each good?
 - d. How much will be produced? When will it be produced? How much will it cost?

ANS: A

PTS: 1

DIF: Easy

REF: p. 36

BLM: Knowledge

3. Lumber prices fall in Calgary, Alberta, because new forests are opened for harvesting in nearby British Columbia. As a result, what might you expect to find in the Calgary housing industry?
 - a. Less labour will be used to construct homes as wages fall relative to the price of lumber.
 - b. Less wood will be used in the construction of new homes because the price is now cheaper.
 - c. Steel frames for houses are replacing wood frames because wood is considered a cheap substitute.
 - d. More wood is being used in the construction of new homes.

ANS: D

PTS: 1

DIF: Easy

REF: p. 37

BLM: Analysis

4. Natural gas prices in Halifax, Nova Scotia, decrease because new wells are brought into production. At the same time, local oil prices rise because of increased shipping costs. As a result, what might you expect to find in the Halifax industrial sector?
- Less natural gas will likely be used.
 - Oil consumption will likely be reduced.
 - Oil will be used to heat more homes.
 - Natural gas will be used to heat fewer homes.

ANS: B
PTS: 1
DIF: Easy
REF: p. 37
BLM: Analysis

5. Which of society's questions does a market system answer?
- "how" and "for whom" questions, but not the "what" question
 - "what," "how," and "for whom" questions
 - "what" and "who" questions, but not the "for whom" question
 - "what" and "for whom" questions, but not the "how" question

ANS: B
PTS: 1
DIF: Easy
REF: p. 37
BLM: Knowledge

6. What does a market economy depend on market mechanisms to do?
- provide everyone with a minimum level of income
 - decide how much government regulation there should be
 - determine how large the government's budget deficit should be
 - determine the most efficient way of using resources

ANS: D
PTS: 1
DIF: Easy
REF: p. 37
BLM: Knowledge

7. What will occur when a command economy is utilized to resolve economic questions regarding the allocation of resources?
- Everyone will receive an equal share of the output produced.
 - The role of markets will be replaced by political decision making.
 - The preferences of individuals will become of no importance.
 - Economic efficiency will be assured.

ANS: B
PTS: 1
DIF: Moderate
REF: p. 37
BLM: Knowledge

8. What is the term for a system of economic organization in which the ownership and control of productive capital assets rests with the state, and resources are allocated through central planning and political decision making?
- a command economy
 - a market economy
 - a corporate economy
 - a capitalist economy

ANS: A

PTS: 1

DIF: Easy

REF: p. 37

BLM: Knowledge

9. In a command economy, how are decisions about how to allocate resources made?
- by a lottery system
 - by individuals and firms interacting in markets coordinated by a price system
 - by the firms that have the most power in the market
 - by a central planning board

ANS: D

PTS: 1

DIF: Easy

REF: p. 37

BLM: Knowledge

10. How does a "command economy" compare to a "market economy"?
- Production and distribution decisions are made by central planners in a command economy, but not in a market economy.
 - There is scarcity in command economies, but not in market economies.
 - Command economies are less prone to inflation than are market economies.
 - A command economy is more efficient than a market economy because decision making is centralized.

ANS: A

PTS: 1

DIF: Easy

REF: p. 37

BLM: Knowledge

11. In a market economy, how are resources allocated?
- by central planners using a price system
 - by decentralized planners at the local level
 - by government bureaucracies because of the absence of a price system
 - by individual decision makers responding to market prices

ANS: D

PTS: 1

DIF: Easy

REF: p. 37

BLM: Knowledge

12. In a market economy, who will get the goods that are produced?
- those that business firms choose to favour
 - those that have sufficient income and are willing to pay the asking price
 - those that desire the goods the least
 - those that the government views as best suited for consumption

ANS: B

PTS: 1

DIF: Easy

REF: p. 38

BLM: Knowledge

13. What does the use of large amounts of labour relative to capital in an economy indicate?
- that labour wage rates will be relatively high
 - that production is capital intensive
 - that production is labour intensive
 - that hand-made goods are of better quality than machine-made goods

ANS: C

PTS: 1

DIF: Easy

REF: p. 38

BLM: Knowledge

14. What tends to occur in countries with high labour costs?
- They use more labour rather than capital in the production process.
 - They use more capital rather than labour in the production process.
 - They rely on only one method for the production of goods.
 - They become relatively poor countries.

ANS: B

PTS: 1

DIF: Easy

REF: p. 38

BLM: Comprehension

15. What is the circular flow of economic activity a model of?
- the interaction among taxes, prices, and profits
 - the influence of government on business behaviour
 - the role of unions and government in the economy
 - the movement of goods, services, and payments between households and firms

ANS: D

PTS: 1

DIF: Easy

REF: p. 40

BLM: Knowledge

16. Which of the following best characterizes the circular flow of income?
- a. Businesses buy resources from the government, and households buy goods and services from businesses.
 - b. Businesses buy resources from households, and households use the money from the sale of resources to buy goods and services from businesses.
 - c. Households buy factors of production from businesses, and businesses buy goods and services from households.
 - d. The government purchases resources from businesses and households and then sells goods and services to businesses and households.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 40

BLM: Knowledge

17. Which of the following best characterizes the circular flow model?
- a. Businesses receive revenue from households in exchange for providing inputs and use that revenue to buy goods and services from households.
 - b. Households receive income from governments in exchange for providing inputs and use that income to buy goods and services from businesses.
 - c. Households receive revenue for selling goods and services to businesses and use that revenue to buy inputs from businesses.
 - d. Businesses receive income from households in exchange for providing goods and services and use that income to buy inputs from households.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 40

BLM: Knowledge

18. In the circular flow model, in what forms do households receive income?
- a. wages, rent, interest, and profits
 - b. wages and rent while firms receive interest and profits
 - c. wages, rent, and interest while firms receive profits
 - d. wages while firms receive rent, interest, and profits

ANS: A

PTS: 1

DIF: Easy

REF: p. 40

BLM: Knowledge

19. Which of the following is NOT a resource exchanged in the factor markets?
- a. land
 - b. wages
 - c. entrepreneurship
 - d. capital

ANS: B

PTS: 1

DIF: Easy

REF: p. 40

BLM: Knowledge

20. Which of the following is NOT a payment made to households in exchange for the use of factors of production?
- a. taxes
 - b. wages
 - c. rent
 - d. interest

ANS: A

PTS: 1

DIF: Easy

REF: p. 40

BLM: Knowledge

21. Capital, entrepreneurship, land, and labour are needed to produce goods and services. What are the respective payments for each of these factors of production?
- a. profits, interest, rent, and wages and salaries
 - b. interest, profits, rent, and wages and salaries
 - c. interest, profits, wages and salaries, and rent
 - d. profits, rent, wages and salaries, and interest

ANS: B

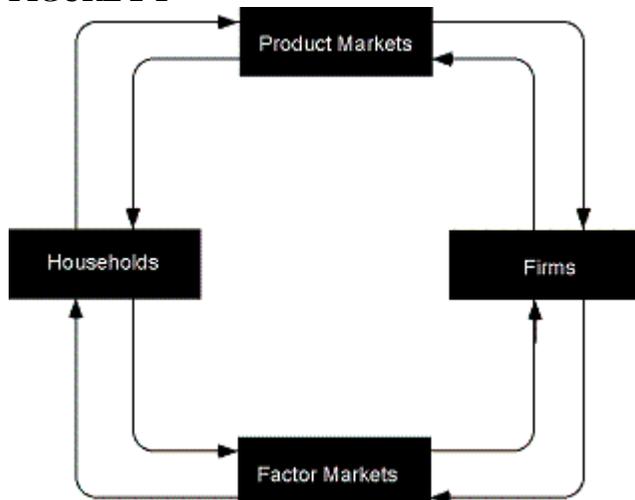
PTS: 1

DIF: Moderate

REF: p. 40

BLM: Knowledge

FIGURE 2-1



22. Refer to Figure 2-1. Which of the following statements about goods and services is the most accurate?
- They are purchased by households in the factor market.
 - They flow in a clockwise direction.
 - They are sold by businesses in the factor market.
 - They flow in a counter clockwise direction.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 40

BLM: Comprehension

23. Refer to Figure 2-1. Which of the following statements about payments for goods and services is the most accurate?
- They are received by households in the factor market.
 - They are received by firms in the factor market.
 - They flow in a clockwise direction.
 - They flow in a counter-clockwise direction.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 40

BLM: Comprehension

24. Refer to Figure 2-1. What does the arrow from the product markets to the firms represent?
- revenue
 - goods and services sold
 - money income
 - wages, rent interest, and profits

ANS: A

PTS: 1

DIF: Easy

REF: p. 41

BLM: Knowledge

25. Refer to Figure 2-1. What does the arrow from the firms to the product markets represent?
- money income
 - goods and services sold
 - revenue
 - wages, rent interest, and profits

ANS: B

PTS: 1

DIF: Easy

REF: p. 41

BLM: Knowledge

26. Refer to Figure 2-1. What does the arrow from the factor markets to the households represent?
- wages, rent interest, and profits
 - revenue
 - money income
 - goods and services sold

ANS: C

PTS: 1

DIF: Easy

REF: p. 41

BLM: Knowledge

27. Refer to Figure 2-1. What does the arrow from the firms to the factor markets represent?
- wages, rent interest, and profits
 - goods and services sold
 - money income
 - revenue

ANS: A

PTS: 1

DIF: Easy

REF: p. 41

BLM: Knowledge

28. What market is land bought and sold in?
- the services market
 - the goods market
 - the stock market
 - the factor market

ANS: D

PTS: 1

DIF: Easy

REF: p. 41

BLM: Knowledge

29. Which of the following statements about the production possibilities curve is the most accurate?
- It is a curve that shows the quantity of output that will be offered for sale at various prices.
 - It is a graph that shows the various combinations of output it is possible for an economy to produce given its available resources and technology.
 - It is a graph that shows the combinations of output that are most profitable to produce.
 - It is a graph that shows the various combinations of resources that can be used to produce a given level of output.

ANS: B

PTS: 1

DIF: Easy

REF: p. 42

BLM: Knowledge

30. If the production possibilities curve is a straight line, what does this illustrate?
- Resources are not equally substitutable between productions of the goods because there is an increase in opportunity cost.
 - As an increasing quantity of resources is shifted from one manufacturing process to another, there is no increase in opportunity cost.
 - Opportunity costs are negative.
 - Opportunity costs increase as output of either commodity is expanded.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 42

BLM: Comprehension

31. What does a straight-line production possibilities curve illustrate?
- The opportunity cost of production does not vary along the curve.
 - The output combinations along the curve provide equal levels of satisfaction to consumers.
 - The opportunity cost of production of the good on the Y-axis increases as you move down along the curve.
 - The market price of the two goods is the same everywhere along the curve.

ANS: A

PTS: 1

DIF: Easy

REF: p. 42

BLM: Knowledge

32. Along a straight-line production possibilities curve, which of the following best describes the opportunity costs of producing the good on the X-axis?
- They are decreasing.
 - They are constant.
 - They are increasing.
 - They are varied.

ANS: B

PTS: 1

DIF: Easy

REF: p. 42

BLM: Knowledge

33. What does a linear (straight line) production possibilities curve illustrate?
- a trade-off in which the opportunity cost of a good increases with the level of its production
 - a trade-off in which the opportunity cost of a good is constant at all levels of production
 - a trade-off in which the opportunity cost is zero with all levels of production
 - a trade-off in which the opportunity cost of a good decreases with the level of its production

ANS: B

PTS: 1

DIF: Moderate

REF: p. 42

BLM: Knowledge

34. Ming-Na must write a political science term paper and prepare for an economics exam. The production possibilities curve between political science and economics preparation is a straight line. As time spent studying economics increases, what is the effect on the opportunity cost of studying for economics?
- It increases.
 - It remains the same.
 - It first increases, then decreases.
 - It decreases.

ANS: B

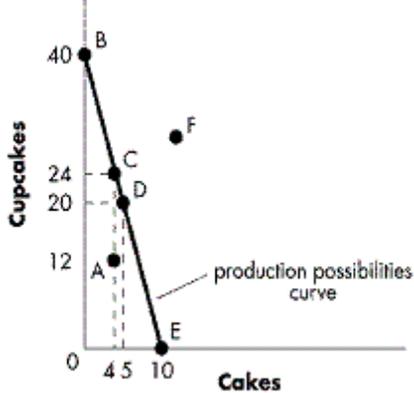
PTS: 1

DIF: Easy

REF: p. 42

BLM: Comprehension

FIGURE 2-2



35. Refer to Figure 2-2. Which of the following statements best describes the opportunity cost of producing an additional cake?
- It increases as the economy moves in a southeast direction along the production possibilities curve.
 - It decreases as the economy moves in a southeast direction along the production possibilities curve.
 - It remains constant as the economy moves in a southeast direction along the production possibilities curve.
 - It equals zero.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 42

BLM: Comprehension

36. Refer to Figure 2-2. What is the opportunity cost of producing an additional cake equal to?
- 1/4 of a cupcake
 - 4 cupcakes
 - 10 cupcakes
 - 40 cupcakes

ANS: B

PTS: 1

DIF: Moderate

REF: p. 42

BLM: Application

37. Refer to Figure 2-2. Which of the following statements about a movement from Point D to Point C is the most accurate?
- It requires the sacrifice of four cupcakes in order to obtain one cake.
 - It requires the sacrifice of one cake in order to obtain four cupcakes.
 - It reallocates inputs without affecting overall levels of production.
 - It increases unemployment.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 42

BLM: Application

38. Refer to Figure 2-2. Which of the following statements about a movement from Point B to Point C is the most accurate?
- It involves sacrificing bread in order to produce a greater quantity of wine.
 - It involves no sacrifice, as the opportunity cost of production is zero everywhere along the production possibilities curve.
 - It involves sacrificing wine in order to produce a greater quantity of bread.
 - It will increase the level of unemployment in the economy.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

39. Refer to Figure 2-2. Which of the following statements about a movement from Point G to Point F is the most accurate?
- It involves sacrificing wine in order to produce a greater quantity of bread.
 - It will increase the level of unemployment in the economy.
 - It involves no sacrifice of output, as both more wine and bread can be produced if available resources are used more efficiently.
 - It involves sacrificing bread in order to produce a greater quantity of wine.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

40. Refer to Figure 2-2. Which of the following statements about a movement from Point C to Point B is the most accurate?
- It involves sacrificing bread in order to produce a greater quantity of wine.
 - It involves sacrificing wine in order to produce a greater quantity of bread.
 - It involves no sacrifice of output, as the opportunity cost of production is zero everywhere along the production possibilities curve.
 - It will increase the level of unemployment in the economy.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

41. What is assumed when an economy's production possibilities curve for a year is drawn?
- There is a fixed quantity of resources and technology that is changing along the curve.
 - There is a fixed quantity of available resources and an unchanging level of technology.
 - The productivity of resources increases continually.
 - There is an unchanging level of technology and a changing quantity of resources.

ANS: B

PTS: 1

DIF: Easy

REF: p. 42

BLM: Knowledge

42. Under what circumstances will an economy's production possibility curve be a straight line?
- if the opportunity cost of production of a good is constant as more of it is produced
 - if the opportunity cost of production of a good decreases as more of it is produced
 - if resources are not equally substitutable among productive tasks
 - if the economy experiences significant unemployment

ANS: A

PTS: 1

DIF: Easy

REF: p. 42

BLM: Knowledge

43. Why is a production possibilities curve negatively sloped?
- Along the curve, production of one good must be sacrificed in order to increase production of another.
 - Unemployment increases as an economy moves down along the curve.
 - As the price falls, more goods are purchased.
 - Unemployment decreases as an economy moves down along the curve.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 42

BLM: Comprehension

44. If additional units of output could be produced at constant opportunity cost, what would the shape of the production possibilities curve be?
- positively sloped
 - a straight line with a negative slope
 - bowed inward toward the origin
 - bowed outward away from the origin

ANS: B

PTS: 1

DIF: Easy

REF: p. 42

BLM: Comprehension

45. Using the production possibilities curve, which of the following illustrates an inefficient use of resources?
- a movement off the curve in a southwest direction
 - a movement to the southeast along the curve
 - a movement to the northeast along the curve
 - a movement off the curve in a northeast direction

ANS: A

PTS: 1

DIF: Moderate

REF: p. 43

BLM: Application

46. Which of the following illustrates excessive unemployment of resources on a production possibilities curve?
- an inward shift of the curve
 - a point inside the curve
 - a movement along the curve in a northwest direction
 - an outward shift of the curve

ANS: B

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

47. Which of the following is the most accurate statement about a production possibilities curve?
- An economy can produce only on its production possibilities curve.
 - An economy can produce at any point inside its production possibilities curve, but not on or outside the curve.
 - An economy can produce at any point inside or outside its production possibilities curve.
 - An economy can produce at any point on or inside its production possibilities curve, but not outside the curve.

ANS: D

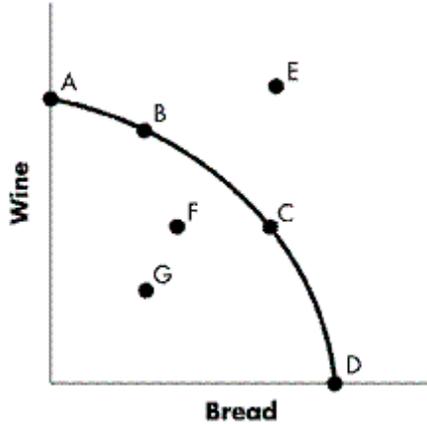
PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

FIGURE 2-3



48. Refer to Figure 2-3. At which point is it currently not possible to produce?
- Point A
 - Point B
 - Point E
 - Point G

ANS: C
PTS: 1
DIF: Easy
REF: p. 43
BLM: Knowledge

49. Refer to Figure 2-3. An economy is operating at full employment, and then workers in the bread industry are laid off. How is this change portrayed on the production possibilities curve?
- as a movement from A to B
 - as a movement from B to E
 - as a movement from C to F
 - as a movement from G to F

ANS: C
PTS: 1
DIF: Moderate
REF: p. 43
BLM: Application

50. Refer to Figure 2-3. What is the most efficient point of production depicted?
- Point D
 - Point E
 - Point F
 - Point G

ANS: A
PTS: 1
DIF: Easy
REF: p. 43
BLM: Knowledge

51. Refer to Figure 2-3. What is the most inefficient point depicted?
- Point A
 - Point C
 - Point D
 - Point G

ANS: D
PTS: 1
DIF: Easy
REF: p. 43
BLM: Knowledge

52. Refer to Figure 2-3. Which of the following statements about Point A is most accurate?
- The economy is operating inefficiently at Point A.
 - Both wine and bread are produced at Point A.
 - Only wine is produced at Point A.
 - Only bread is produced at Point A.

ANS: C
PTS: 1
DIF: Moderate
REF: p. 43
BLM: Comprehension

53. Refer to Figure 2-3. Which of the following movements will result in an increase in the quantity of both capital and consumption goods produced this period?
- a movement from Point D to Point F
 - a movement from Point F to Point D
 - a movement from Point B to Point A
 - a movement from Point F to Point A

ANS: C
PTS: 1
DIF: Moderate
REF: p. 44
BLM: Application

54. Refer to Figure 2-3. Which of the following movements will result in an increase in the production of capital goods but a decrease in the production of consumption goods this period?
- a movement from Point E to Point D
 - a movement from Point B to Point A
 - a movement from Point D to Point G
 - a movement from Point A to Point B

ANS: A
PTS: 1
DIF: Moderate
REF: p. 44
BLM: Application

55. Refer to Figure 2-3. Which of the following movements will result in a decrease in the production of capital goods but an increase in the production of consumption goods this period?
- a movement from Point A to Point B
 - a movement from Point C to Point E
 - a movement from Point D to Point G
 - a movement from Point B to Point A

ANS: B

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Application

56. Refer to Figure 2-3. Comparatively, at which point is the opportunity cost of one more unit of a consumption good greater?
- It is greater at Point C than at Point D.
 - It is greater at Point D than at Point E.
 - It is greater at Point E than at Point D.
 - It is greater at Point B than at Point A.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 45

BLM: Application

57. Refer to Figure 2-3. At which point is the opportunity cost of one more unit of a capital good greater?
- It is greater at Point F than at Point E.
 - It is greater at Point D than at Point E.
 - It is greater at Point E than at Point D.
 - It is greater at Point B than at Point A.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 45

BLM: Application

58. Refer to Figure 2-3. Considering only points on the frontier, at what point will the economy experience the least amount of economic growth over time (*ceteris paribus*)?
- Point A
 - Point C
 - Point E
 - Point F

ANS: D

PTS: 1

DIF: Moderate

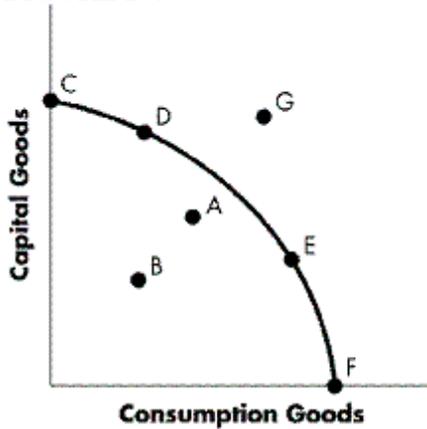
REF: p. 47

BLM: Application

59. Refer to Figure 2-3. Other things being equal, where would the economy operate in order to achieve the greatest economic growth over time?
- Point A
 - Point B
 - Point C
 - Point E

ANS: C
 PTS: 1
 DIF: Moderate
 REF: p. 47
 BLM: Application

FIGURE 2-4



60. Refer to Figure 2-4. Currently, which point is impossible to achieve?
- Point A
 - Point C
 - Point E
 - Point G

ANS: D
 PTS: 1
 DIF: Easy
 REF: p. 43
 BLM: Knowledge

61. Refer to Figure 2-4. Which of the following points corresponds to an economy experiencing significant unemployment and/or producing inefficiently?
- Point A
 - Point C
 - Point E
 - Point F

ANS: A
 PTS: 1
 DIF: Easy
 REF: p. 43
 BLM: Knowledge

62. Refer to Figure 2-4. For this economy, what is the most preferred point to produce at?
- Point A
 - Point B
 - Point D
 - Point G

ANS: C

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

63. Refer to Figure 2-4. Which of the following statements about the movement from Point D to Point E is the most accurate?
- It results in an increase in the production of both capital and consumption goods this period.
 - It results in an increase in the production of capital goods but a decrease in the production of consumption goods this period.
 - It does not change the level of output produced since both points are on the production possibilities curve.
 - It results in an increase in the production of consumption goods but a decrease in the production of capital goods this period.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 43

BLM: Comprehension

64. Refer to Figure 2-4. If the economy chooses to shift more of its resources into clothing, what will it have to give up?
- smaller and smaller amounts of food per unit of added clothing as the quantity of clothing produced increases
 - nothing, since food and clothing are not substitutes
 - larger and larger amounts of food per unit of added clothing as the quantity of clothing produced increases
 - relatively equal amounts of food per unit of added clothing as the quantity of clothing produced increases

ANS: C

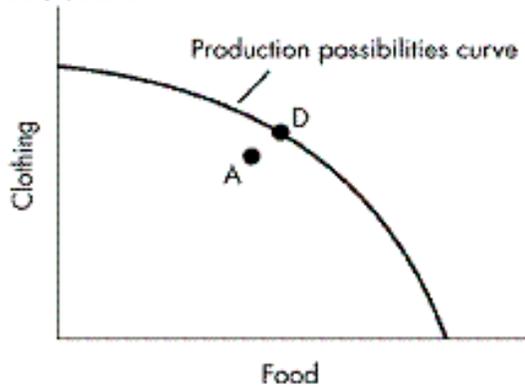
PTS: 1

DIF: Moderate

REF: p. 45

BLM: Comprehension

FIGURE 2-5



65. Refer to Figure 2.5. How would Point A be described?
- It is efficient.
 - It is preferable to Point D.
 - It is inefficient.
 - It is unattainable.

ANS: C

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

66. Refer to Figure 2.5. How could Point D be described?
- It is inefficient.
 - It is beyond the society's productive capability.
 - It is unattainable.
 - It is preferable to Point A.

ANS: D

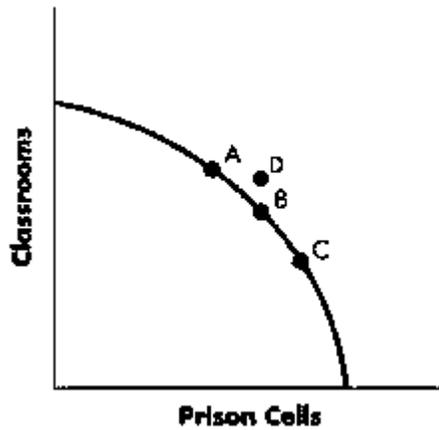
PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

FIGURE 2-6



67. Refer to Figure 2-6. The diagram represents a trade-off in an economy between prison cells and classrooms. Which position represents the choice to allocate the greatest amount of resources to producing classrooms?
- Point A
 - Point B
 - Point C
 - Point D

ANS: A
PTS: 1
DIF: Easy
REF: p. 43
BLM: Application

68. Refer to Figure 2-6. The diagram represents a trade-off in an economy between prison cells and classrooms. Which position represents the choice to allocate the greatest amount of resources to producing prison cells?
- Point A
 - Point B
 - Point C
 - Point D

ANS: C
PTS: 1
DIF: Easy
REF: p. 43
BLM: Application

69. Refer to Figure 2-6. If the economy moves from Point C to Point A, what is the result?
- There is no net change in the number of prison cells and classrooms, as all points on the frontier are equally efficient.
 - More prison cells are created.
 - It sacrifices an increasing quantity of classrooms per prison cell produced the further the movement toward Point A.
 - More classrooms are created.

ANS: D

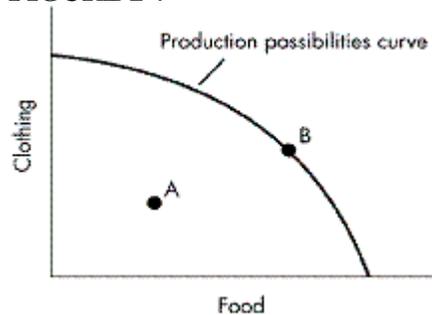
PTS: 1

DIF: Easy

REF: p. 43

BLM: Application

FIGURE 2-7



70. Refer to Figure 2-7. What does Point A indicate about the economy?
- It is not using its resources efficiently.
 - It is using its resources efficiently to produce both food and clothing.
 - It is using its resources efficiently while producing food but no clothing.
 - It is using its resources efficiently while producing clothing but no food.

ANS: A

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

71. Refer to Figure 2-7. What does Point B indicate about the economy?
- It is using its resources efficiently while producing food but no clothing.
 - It is using its resources efficiently to produce both food and clothing.
 - It is not using its resources efficiently.
 - It is using its resources efficiently while producing clothing but no food.

ANS: B

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

72. Refer to Figure 2-7. What happens in the economy when production moves from Point A to Point B?
- The economy increases production of clothing, but not food.
 - The economy operates at its productive capacity once it reaches Point B.
 - The economy increases production of food, but not clothing.
 - The economy is using its resources inefficiently to produce both food and clothing.

ANS: B

PTS: 1

DIF: Easy

REF: p. 43

BLM: Comprehension

73. Any point NOT on the production possibilities curve cannot be optimal. What reasoning supports this?
- Operating inside the curve means sacrificing economic growth for current consumption, and economic growth is always a goal worth pursuing.
 - Operating inside the curve leads to inflation and inflation can be very costly.
 - Operating inside the curve is inefficient and represents wasted resources.
 - A point inside the curve implies that society is not facing up to the problem of scarcity.

ANS: C

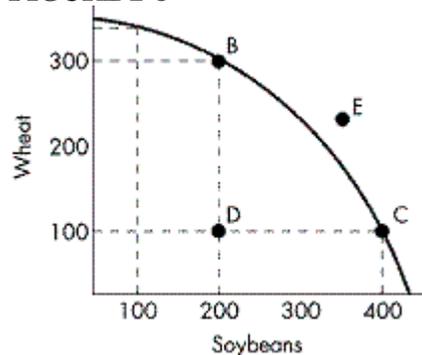
PTS: 1

DIF: Moderate

REF: p. 43

BLM: Analysis

FIGURE 2-8



74. Refer to Figure 2-8. In order for the economy to move from Point B to Point E at a given point in time, what would it have to do?
- Sacrifice wheat in favour of more soybeans.
 - Sacrifice soybeans in favour of more wheat.
 - Stop wasting resources.
 - Increase the productive capabilities of the economy.

ANS: D

PTS: 1

DIF: Easy

REF: p. 43

BLM: Knowledge

75. Refer to Figure 2-8. Assume the economy is operating at Point D. What is the opportunity cost of moving to Point B?
- about 200 bushels of wheat
 - about 200 bushels of soybeans
 - zero
 - infinite, as Point B cannot be produced at any cost

ANS: C

PTS: 1

DIF: Easy

REF: p. 44

BLM: Application

76. Refer to Figure 2-8. In order to move from Point D to Point C, what will the economy have to give up?
- 200 bushels of soybeans
 - 200 bushels of wheat
 - 100 bushels of wheat
 - nothing

ANS: D

PTS: 1

DIF: Easy

REF: p. 44

BLM: Application

77. Refer to Figure 2-8. In order to move from Point B to Point C, what will the economy have to give up?
- 300 bushels of wheat
 - 200 bushels of soybeans
 - 200 bushels of wheat
 - 100 bushels of soybeans

ANS: C

PTS: 1

DIF: Easy

REF: p. 44

BLM: Application

78. An economy is producing two goods, ice cream and cookies, and is currently operating efficiently. Under what circumstances can this economy produce more cookies?
- if it increases the price of cookies
 - if it produces less ice cream
 - if it increases the price of ice cream
 - if more of the economy's resources become idle

ANS: B

PTS: 1

DIF: Easy

REF: p. 44

BLM: Analysis

79. What does the production possibilities curve illustrate?
- the minimum quantities of output that can be produced using available resources
 - the minimum quantity of two resources necessary to produce a given level of output
 - that when resources are currently being used efficiently, it is possible to increase production of one good only by sacrificing some of another good
 - that when resources are currently being used inefficiently, it is possible to increase production of one good only by sacrificing some of another good

ANS: C

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

80. When resources are used efficiently, what is the only way you can produce more of one good, *ceteris paribus*?
- by charging a lower price for the good
 - by producing less of another good
 - by charging a higher price for the good
 - by printing more money so you can buy more goods

ANS: B

PTS: 1

DIF: Easy

REF: p. 44

BLM: Comprehension

81. Which of the following is an illustration of the concept of opportunity cost?
- a movement along the production possibilities curve as production of one good falls in order to increase production of another.
 - a movement from the interior of the production possibilities curve to the frontier
 - a movement from the production possibilities curve to its interior
 - a movement from a point on the production possibilities curve to the northeast

ANS: A

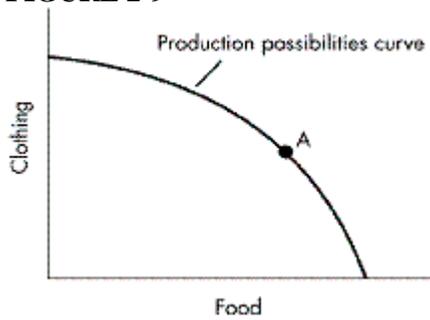
PTS: 1

DIF: Easy

REF: p. 44

BLM: Knowledge

FIGURE 2-9



82. Refer to Figure 2-9. If an economy operates at Point A on the production possibilities curve, then which of the following statements is accurate?
- It cannot increase its output of clothing.
 - It cannot simultaneously increase its output of both food and clothing.
 - It cannot increase its output of food.
 - It is utilizing its resources inefficiently.

ANS: B

PTS: 1

DIF: Easy

REF: p. 44

BLM: Comprehension

83. Refer to Figure 2-9. If Points A and B indicate consumption and investment for two different economies, other things held constant, which of the following statements about the growth of the economies is most accurate?
- How fast either economy grows is uncertain since growth is not influenced by either consumption or investment.
 - Economy B will grow more rapidly.
 - The two economies will grow at the same rate because they are on the same production possibilities curve.
 - Economy A will grow more rapidly.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 47

BLM: Comprehension

84. What is the main reason economists are concerned about the problem of idle or unemployed resources?
- Government benefits paid to unemployed workers put stress on the federal budget.
 - High rates of crime are related to high rates of unemployed resources.
 - High rates of inflation are caused by idle land, labour, and capital resources.
 - Unemployed resources mean less production and a lower standard of living for the nation.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

85. Which of the following describes the effect of unemployed resources in the economy?
- An economy with many unemployed workers and idle factories is not operating efficiently.
 - A large amount of unemployed resources will shift the production possibilities curve outward.
 - Idle factories represent unemployed labour resources.
 - Idle farms represent unemployed capital resources.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Comprehension

86. How does an economist define efficiency?
- the creation of a surplus using available resources
 - the maximization of revenue from available resources
 - the maximization of output from available resources
 - the maximization of inputs using available resources

ANS: C

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Knowledge

87. Which of the following best illustrates inefficiency?
- producing outside the production possibilities curve
 - limiting economic growth by reducing capital spending
 - high levels of unemployment of labour and other resources
 - forgoing civilian goods in order to produce more military goods

ANS: C

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Application

88. If an economy is operating inside its production possibilities curve for tanks and bread, which of the following best illustrates what is happening in the economy?
- Production of bread and tanks can both increase.
 - All resources are being used efficiently.
 - Production of bread can increase only by sacrificing the production of tanks.
 - Scarcity does not exist.

ANS: A

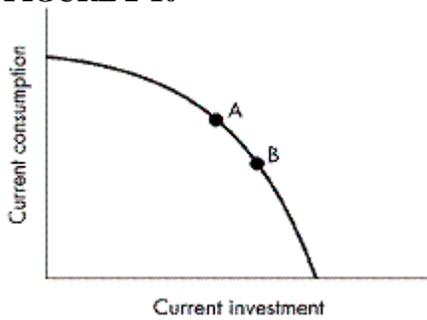
PTS: 1

DIF: Easy

REF: p. 44

BLM: Knowledge

FIGURE 2-10



89. Refer to Figure 2-10. Societies choose between the level of current consumption and current investment. What is occurring if a society moves from Point B to Point A?
- The economy is producing a lower overall level of output.
 - Society is opting for more consumption in the current time period.
 - Society is sacrificing present consumption for economic growth in the future.
 - There is no change in consumption or investment, simply a change in the allocation of resources. An equal amount of consumption and investment occurs anywhere along the production possibilities curve.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 44

BLM: Application

90. Refer to Figure 2-10. Which of the following best explains how the society producing breadfruit and fish could have moved from curve AA to curve BB?
- A new school of fish was located.
 - The society experienced significant immigration of labour.
 - The society reallocated its resources toward the production of a greater quantity of breadfruit.
 - The society reallocated its resources toward catching a greater number of fish.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 46

BLM: Comprehension

91. Which of the following describes when an economy may be operating at a point inside the production possibilities curve?
- if production resources are being used efficiently
 - if a substantial amount of machinery is idle
 - if a substantial amount of labour is employed
 - if technological progress enables the economy to produce quantities of output otherwise unattainable

ANS: B

PTS: 1

DIF: Easy

REF: p. 44

BLM: Comprehension

92. What occurs with a movement in a southeast direction along a production possibilities curve?
- a reduction in unemployment
 - an increase in the production of one good with a decrease in production of the other
 - an increase in the production of both goods
 - an increase in unemployment

ANS: B

PTS: 1

DIF: Easy

REF: p. 44

BLM: Knowledge

93. Which of the following describes why an economy's production possibility curve is "bowed" outward?
- The opportunity cost of production of a good is constant as more of it is produced.
 - Some resources are more substitutable among productive tasks than others.
 - The opportunity cost of production of a good decreases as more of it is produced.
 - Resources cannot be substituted between productive tasks.

ANS: B

PTS: 1

DIF: Moderate REF: p. 45

BLM: Comprehension

94. What does the law of increasing opportunity costs imply?
- A production possibilities curve will be upward sloping.
 - A production possibilities curve will be a straight line.
 - A production possibilities curve will be bowed inward toward the origin.
 - A production possibilities curve will be bowed outward away from the origin.

ANS: D

PTS: 1

DIF: Easy

REF: p. 45

BLM: Knowledge

95. How does the fact that resources are not equally substitutable across uses affect the production possibilities curve?
- The production possibilities curve will be a straight line.
 - The production possibilities curve will be bowed inward.
 - The production possibilities curve will be positively sloped.
 - The production possibilities curve will be bowed outward.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 45

BLM: Comprehension

96. Why is a production possibilities curve negatively sloped?
- Resources are wasted as you move along the curve.
 - The price of a good falls as you move down along the curve.
 - Once on the frontier, it is possible to increase production of one good only by reducing production of the other.
 - It is not possible to adjust production decisions once an economy operates on the curve.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 45

BLM: Comprehension

97. When does the law of increasing opportunity costs apply?
- when management is disorganized and production is inefficient
 - when resources are free
 - when resources are not equally adaptive among potential productive uses
 - when market forces do not lead to equality between price and opportunity cost

ANS: C

PTS: 1

DIF: Moderate

REF: p. 45

BLM: Comprehension

98. What does the concavity (bowed-out shape) of the production possibilities curve result from?
- the law of demand
 - the law of increasing opportunity cost
 - the law of supply
 - the law of complimentary goods

ANS: B

PTS: 1

DIF: Easy

REF: p. 45

BLM: Knowledge

99. Which of the following best describes what occurs along a bowed-out production possibilities curve?
- The opportunity cost of production of a good rises as its output increases.
 - Resources can be transferred from one productive activity to another without requiring a sacrifice.
 - The opportunity cost of production of a good is zero.
 - The opportunity cost of production of a good falls as its output increases.

ANS: A

PTS: 1

DIF: Easy

REF: p. 45

BLM: Knowledge

100. Which of the following distinguishes a "straight-line" production possibilities curve from one that is "bowed out"?
- A straight-line production possibilities curve is upward sloping, whereas a bowed production possibilities curve is not.
 - A straight-line production possibilities curve exhibits decreasing opportunity costs, whereas a bowed production possibilities curve does not.
 - A straight-line production possibilities curve exhibits increasing opportunity costs, whereas a bowed production possibilities curve does not.
 - A straight-line production possibilities curve exhibits constant opportunity costs, whereas a bowed production possibilities curve does not.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 45

BLM: Comprehension

101. Along a production possibilities curve that is concave to the origin, what happens to the opportunity cost of production of the good on the X-axis as we move down along the curve?
- It first decreases, then increases.
 - It decreases.
 - It increases.
 - It remains constant.

ANS: C

PTS: 1

DIF: Easy

REF: p. 45

BLM: Knowledge

102. Which of the following statements about a production possibilities curve that is "bowed out" or concave to the origin is the most accurate?
- It illustrates a trade-off in which the opportunity cost of a good is constant at all levels of production.
 - It illustrates a trade-off in which the opportunity cost of a good decreases with the level of its production.
 - It demonstrates the fallacy of composition.
 - It illustrates a trade-off in which the opportunity cost of a good increases with the level of its production.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 45

BLM: Knowledge

103. Alex must prepare for exams in both biology and economics this week. Assume that the production possibilities curve showing the trade-off between exam scores in biology and economics is concave toward the origin. As Alex moves along the curve spending more of his time studying for economics, what is the effect on the opportunity cost of an hour of preparation for economics?
- It first increases, then decreases.
 - It decreases.
 - It increases.
 - It remains constant.

ANS: C

PTS: 1

DIF: Easy

REF: p. 45

BLM: Comprehension

104. Consider a production possibilities curve for an economy producing bicycles and video game players. Under what circumstances is it possible to increase the production of bicycles without sacrificing video game players?
- if the production possibilities curve shifts outward due to decreased immigration (which reduces the labour force)
 - if the economy moves from one point on the production possibilities curve to another point on the curve
 - if the economy moves from a point outside the production possibilities curve to a point inside the curve
 - if the production possibilities curve shifts outward due to technological progress

ANS: D

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Analysis

105. The leader of a federal political party made the following campaign promise: "My administration will increase national defence without requiring sacrifices elsewhere in the economy." Under what circumstance can the promise be kept?
- if the production possibilities frontier shifts outward due to an improvement in technology
 - if the economy moves from a point on the production possibilities curve toward a point inside the production possibilities curve
 - if the production possibilities curve shifts inward due to better education and worker training
 - if the economy moves along the production possibilities in the direction of a greater quantity of defence

ANS: A

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Analysis

106. Which of the following would NOT be a factor that determines the position and shape of a society's production possibilities curve?
- a. the level of technology of the society
 - b. the skills of the work force
 - c. the average wage rate of that society
 - d. the physical resources of that society

ANS: C

PTS: 1

DIF: Easy

REF: p. 46

BLM: Knowledge

107. How is a technological advance that increases the productivity of all inputs best illustrated?
- a. as a flattening of the production possibilities curve
 - b. as an outward shift of the production possibilities curve
 - c. as a movement along the production possibilities curve
 - d. as an inward shift of the production possibilities curve

ANS: B

PTS: 1

DIF: Easy

REF: p. 46

BLM: Comprehension

108. How might an increase in the unemployment rate from 15 percent to 20 percent be illustrated?
- a. as a movement from a point interior to the production possibilities curve to one closer to the origin
 - b. as a movement from a point on the production possibilities curve to an interior point
 - c. as a movement to the northwest from one point along the production possibilities curve to another
 - d. as a movement from an interior point to a point on the production possibilities curve

ANS: A

PTS: 1

DIF: Difficult

REF: p. 46

BLM: Application

109. How can a decrease in the unemployment rate from 21 percent to 17 percent be illustrated?
- a. as an inward shift of the production possibilities curve
 - b. as a movement from a point outside the production possibilities curve to a point farther from the production possibilities curve
 - c. as an outward shift of the production possibilities curve
 - d. as a movement from a point inside the production possibilities curve to a point closer to the production possibilities curve

ANS: D

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Application

110. Assume the economy moves from a situation with full employment to one in which the unemployment rate is higher. How can this be portrayed on the production possibilities curve?
- a. an outward shift of the curve
 - b. an inward shift of the curve
 - c. a movement from a point on the curve to a point inside the curve
 - d. a movement from a point inside the curve to a point closer to the curve

ANS: C

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Application

111. A virulent disease spreads throughout the population of an economy, causing death and disability. How can this be portrayed on the production possibilities curve?
- a. a movement from a point on the curve to the northeast
 - b. a movement along the curve to the southeast
 - c. an outward shift of the curve
 - d. an inward shift of the curve

ANS: D

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Application

112. Which of the following will NOT shift the production possibilities curve in an inward direction?
- a. a sharp increase in the unemployment rate
 - b. destruction of property and people by a devastating war
 - c. a decrease in the capital stock
 - d. contamination of land due to a nuclear meltdown

ANS: A

PTS: 1

DIF: Difficult

REF: p. 46

BLM: Comprehension

113. Which of the following will NOT shift the production possibilities curve outward?
- a. the discovery of significant oil reserves under Alberta
 - b. a decrease in capacity utilization of existing factories
 - c. an improvement in technology, which increases the efficiency of inputs
 - d. additions to the stock of physical capital

ANS: B

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Comprehension

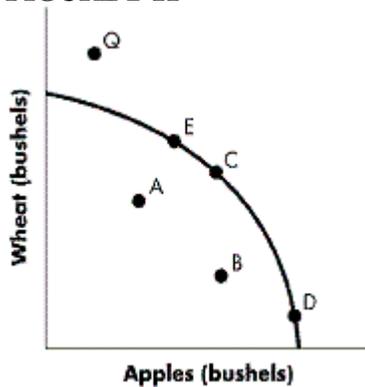
114. Which of the following will shift the production possibilities curve outward?
- an increase in the capacity utilization of existing factories
 - a decrease in the market price of goods
 - an increase in the stock of capital due to the sacrifice of current consumption
 - an increase in the unemployment rate

ANS: C
 PTS: 1
 DIF: Difficult
 REF: p. 46
 BLM: Comprehension

115. What could one expect approximately two decades after a "baby boom"?
- an outward shift of the production possibilities curve along both axes
 - an inward shift of the production possibilities curve
 - production to change from an interior point to a point along the production possibilities curve
 - a movement along the production possibilities curve from one point to another

ANS: A
 PTS: 1
 DIF: Moderate
 REF: p. 46
 BLM: Analysis

FIGURE 2-11



116. Refer to Figure 2-11. How is the statement "To get more apples, we have to give up wheat" best illustrated in the above diagram?
- by a movement from Point A to Point C
 - by a movement from Point C to Point D
 - by a movement from Point A to Point E
 - by a movement from Point B to Point C

ANS: B
 PTS: 1
 DIF: Moderate
 REF: p. 44
 BLM: Application

117. Refer to Figure 2-11. Which of the following could make Point Q attainable in the above production possibilities diagram?
- technological innovations in the production of apples only
 - a transfer of available resources from apple to wheat production
 - an increase in the land available for agriculture use
 - policies encouraging full employment of resources

ANS: C

PTS: 1

DIF: Difficult

REF: p. 46

BLM: Application

118. Which of the following best describes economic growth?
- It will shift the production possibilities curve to the left.
 - It will eventually eliminate scarcity.
 - It often results from improved technology.
 - It is likely to be determined by uncontrollable factors, such as the climate.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Comprehension

119. Which of the following would most likely shift the production possibilities curve inward?
- an increase in the production of capital goods
 - an increase in the number of hours factories are in use
 - technological progress
 - a decrease in the average number of hours worked per week

ANS: D

PTS: 1

DIF: Moderate

REF: p. 46

BLM: Comprehension

120. Which of the following would mostly likely shift the production possibilities curve in an outward direction?
- a movement along the curve sacrificing capital goods for consumption goods
 - advances in medicine that reduce the incidence of disease and lengthen productive life spans
 - an increase in the price of goods and services
 - a decrease in the current rate of unemployment

ANS: B

PTS: 1

DIF: Difficult

REF: p. 46

BLM: Comprehension

121. How can economic growth be illustrated?
- by an inward shift of the production possibilities curve
 - by a movement from a point on the production possibilities curve to a point inside the production possibilities curve
 - by an outward shift of the production possibilities curve
 - by a movement along the production possibilities curve

ANS: C

PTS: 1

DIF: Easy

REF: p. 46

BLM: Knowledge

122. Which one of the following will **NOT** cause the production possibilities curve to shift outward?
- an idle manufacturing plant
 - more tractors becoming available to farmers
 - the construction of a new factory
 - increased education

ANS: A

PTS: 1

DIF: Easy

REF: p. 46

BLM: Comprehension

123. Which one of the following will cause the production possibilities curve to shift outward?
- increased numbers of unemployed in the current period
 - increased levels of education
 - lower investment in research, development, and exploration
 - decreased production of tools in the current period

ANS: B

PTS: 1

DIF: Easy

REF: p. 46

BLM: Comprehension

124. What effect will improving the level of education of the labour force have on the production possibilities curve?
- It will move the economy from a point on the production possibilities curve to a point inside the production possibilities curve.
 - It will shift the production possibilities curve inward.
 - It will move the economy from a point inside the production possibilities curve to a point on the production possibilities curve.
 - It will shift the production possibilities curve outward.

ANS: D

PTS: 1

DIF: Easy

REF: p. 46

BLM: Comprehension

125. Which of the following will shift a production possibilities curve outward?
- a decrease in the unemployment rate from 18 to 15 percent
 - a decrease in available labour and capital
 - an increase in the unemployment rate
 - an improvement in technology

ANS: D

PTS: 1

DIF: Easy

REF: p. 46

BLM: Comprehension

126. A devastating earthquake destroys 10 percent of the population in Vancouver. What is the result?
- Vancouver moves in a southeast direction along its production possibilities curve.
 - Vancouver's production possibility curve shifts inward.
 - Vancouver's production possibility curve shifts outward.
 - Vancouver moves in a northwest direction along its production possibilities curve.

ANS: B

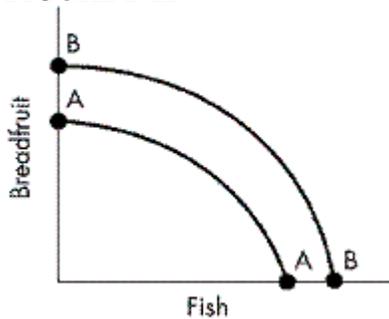
PTS: 1

DIF: Easy

REF: p. 46

BLM: Analysis

FIGURE 2-12



127. Refer to Figure 2-12. Which of the following would most likely cause the production possibilities curve for breadfruit and fish to shift from AA to BB?
- a decrease in the production of fish over breadfruit
 - a reduction in the size of the available labour force
 - an increase in the stock of capital
 - an increase in the production of fish over breadfruit

ANS: C

PTS: 1

DIF: Moderate

REF: p. 47

BLM: Comprehension

128. Refer to Figure 2-12. Which of the following statements about a movement from Point D to Point F is the most accurate?
- It requires the sacrifice of cakes in order to acquire more cupcakes.
 - It is not possible given the available resources and technology.
 - It requires the sacrifice of cupcakes in order to acquire more cakes.
 - It increases the level of unemployment.

ANS: B
PTS: 1
DIF: Easy
REF: p. 43
BLM: Application

129. Refer to Figure 2-12. Which of the following statements about a movement from Point D to Point A is the most accurate?
- It decreases production of both cakes and cupcakes and would be inefficient.
 - It requires the sacrifice of cupcakes in order to acquire more cakes.
 - It requires the sacrifice of cakes in order to acquire more cupcakes.
 - It increases efficiency by conserving resources.

ANS: A
PTS: 1
DIF: Easy
REF: p. 44
BLM: Application

130. If the economy of Taiwan is growing more rapidly than the economy of Japan, which of the following is most likely?
- Compared to Taiwan, Japan spends more on capital goods and forgoes a greater proportion of investment.
 - Japan's current rate of investment is higher than that of Taiwan.
 - Taiwan's current level of investment is lower than that of Japan.
 - Compared to Japan, Taiwan forgoes a greater proportion of consumption goods in favour of capital investment.

ANS: D
PTS: 1
DIF: Moderate
REF: p. 47
BLM: Analysis

131. Is increased capital spending the only way for an economy to expand its production possibilities curve?
- Yes, more capital investment is the only way to expand production possibilities.
 - Yes, although increased production of capital clearly increases the opportunity cost.
 - No, an economy can also grow by reallocating more resources toward the production of consumption goods.
 - No, an economy can also expand by invention and innovation.

ANS: D
PTS: 1
DIF: Moderate
REF: p. 47
BLM: Analysis

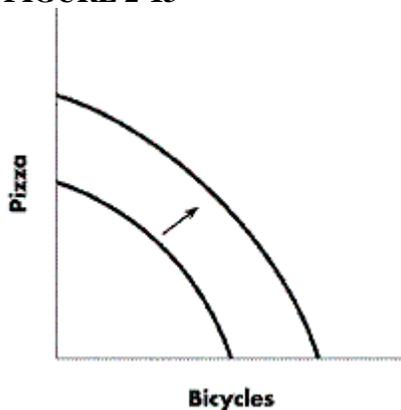
132. A consulting firm is advising its government clients that their economies really do not need to sacrifice consumption goods today in order to grow. Which of the following options would make it possible for clients to experience growth without making sacrifices?
- increasing current consumption and reducing the quantity of capital goods produced
 - receiving gifts of capital or technological innovations
 - reducing consumption today in order to increase future consumption
 - reducing food production in order to increase the production of hydroelectric dams

ANS: B
PTS: 1
DIF: Difficult
REF: p. 47
BLM: Analysis

133. When more resources in an economy are devoted to the production of capital goods, what happens to the production possibilities curve?
- The production possibilities curve is unchanged from period to period.
 - The production possibilities curve in the current period shifts inward, but shifts outward in the future.
 - The production possibilities curve shifts inward.
 - The production possibilities curve shifts outward in the future.

ANS: D
PTS: 1
DIF: Easy
REF: p. 47
BLM: Knowledge

FIGURE 2-13



134. Refer to Figure 2-13. Which of the following is a possible explanation for the shift of the production possibilities curve illustrated above?
- an increase in the number of idle factories
 - a technological advance that affects both pizza and bicycle production
 - a decrease in the quantity of labour available due to emigration
 - a technological advance that affects only bicycle production

ANS: B
PTS: 1
DIF: Easy
REF: p. 47
BLM: Comprehension

TRUE/FALSE

1. In a market economy, government officials make most production decisions in a centralized manner.

ANS: F
PTS: 1
REF: p. 37

2. Consumer sovereignty means that consumers vote with their dollars in a market economy, which helps determine what is produced.

ANS: T
PTS: 1
REF: p. 37

3. In a market economy, prices help determine the distribution of goods and services but not the allocation of resources.

ANS: F
PTS: 1
REF: p. 37

4. Capital-intensive production techniques tend to be utilized most commonly in countries where labour is relatively cheap.

ANS: F
PTS: 1
REF: p. 37

5. High-wage countries like Canada tend to use less labour-intensive production methods than low-wage countries like China.

ANS: T
PTS: 1
REF: p. 38

6. There are four factors of production: land, labour, capital, and entrepreneurship.

ANS: T
PTS: 1
REF: p. 40

7. When you buy groceries at your local supermarket, you are making a transaction in the product market.

ANS: T
PTS: 1
REF: p. 40

8. In the simple circular flow model of the economy, total expenditures on goods and services equal total household income.

ANS: T

PTS: 1

EF: p. 40

9. The production possibilities curve for an economy that experiences a constant opportunity cost of production is linear (a straight line).

ANS: T

PTS: 1

REF: p. 42

10. An increase in available resources will tend to cause a society's production possibilities curve to shift inward.

ANS: F

PTS: 1

REF: p. 43

11. An economy that has many unemployed workers and idle factories is not operating efficiently.

ANS: T

PTS: 1

REF: p. 44

12. The production possibilities curve marks the boundary between attainable and unattainable combinations of output.

ANS: T

PTS: 1

REF: p. 44

13. Any output combination outside the production possibilities curve is attainable in the current period only if prices decrease.

ANS: F

PTS: 1

REF: p. 44

14. A decrease in the unemployment rate will shift an economy's production possibilities curve outward.

ANS: F

PTS: 1

REF: p. 44

15. The opportunity cost of a particular good tends to increase with its rate of output because some resources cannot be easily adapted from the production of one good or service to another.

ANS: T

PTS: 1

REF: p. 45

16. The law of increasing opportunity costs implies that a society's production possibilities curve will be a straight line.

ANS: F

PTS: 1

REF: p. 45

17. An improvement in technology will tend to cause a society's production possibilities curve to shift outward.

ANS: T

PTS: 1

REF: p. 46

18. Movement from one point on the production possibilities curve to another leads to more of both goods being produced.

ANS: F

PTS: 1

REF: p. 46

19. An increase in an economy's capital stock increases its future productive capacity.

ANS: T

PTS: 1

REF: p. 47

20. Other things being constant, an economy must give up some consumer goods and services today to produce more capital goods in order to grow.

ANS: T

PTS: 1

REF: p. 47

21. Capital accumulation causes the production possibilities curve to shift inward over time.

ANS: F

PTS: 1

REF: p. 47

22. High economic growth can eventually eliminate the problem of scarcity.

ANS: F

PTS: 1

REF: p. 47

ESSAY

1. Market economies are often criticized for how they answer the basic question, "For whom are goods produced?" This criticism usually comes from people who believe that the distribution of income is not "fair." Is there some way to separate production from distribution so that we can make the distribution of income "more fair" without interfering with production?

ANS:

Unfortunately, there is no way to totally separate the act of production from the way income is distributed. We know that incentives matter, and tying income to production gives people the incentive to produce. Fairness is a normative concept and reasonable people will disagree over what constitutes a fairer distribution of income. Since incentives matter, any attempt to change the distribution of income is likely to destroy some of the incentives for production.

PTS: 1

2. It can be said that, ultimately, consumers are the driving force behind answers to the three basic economic questions faced by societies. Explain the consumer's role in providing these answers.

ANS:

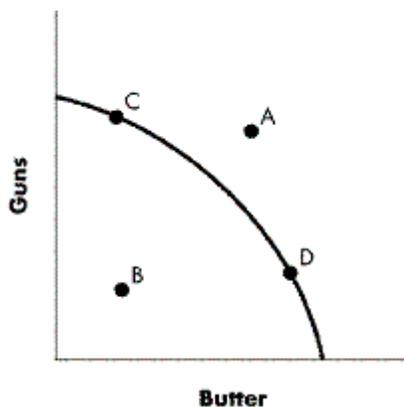
What will be produced is directly determined by businesses. However, firms are aware that the way to succeed is to offer products that consumers find desirable. What businesses produce is determined by what they believe consumers want. How goods are produced is determined by firms that seek to reduce the costs of production. Since consumers are price conscious, they will buy lower-priced products (*ceteris paribus*).

PTS: 1

3. Draw a picture of a production possibilities curve. Identify each axis as measuring either guns or butter. Select and label Point A, which is beyond the economy's ability to produce; Point B, which represents an inefficient level of production; Point C, an efficient combination of output in which more guns are produced than units of butter; and Point D, an efficient production point in which more units of butter are produced than guns. Be sure to label each clearly.

ANS:

Diagrams will vary. A correct diagram should look something like the following:

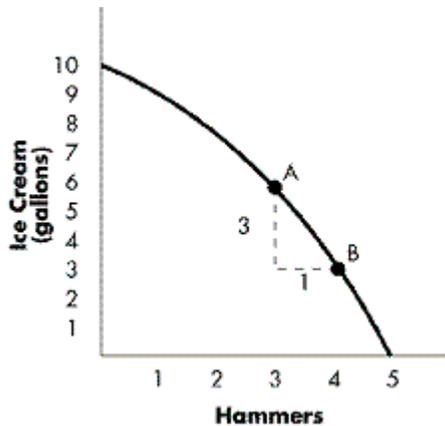


PTS: 1

4. How can we measure the opportunity cost of producing a good? Using a bowed outward production possibilities curve between ice cream and hammers, identify graphically the opportunity cost of obtaining an additional hammer.

ANS:

Diagrams will vary. A correct diagram should look something like the following:



The opportunity cost of a hammer is the quantity of ice cream that must be sacrificed in order to produce an additional hammer. For example, moving from Point A to Point B in the above diagram, we can see that 3 gallons of ice cream are sacrificed in order to produce one additional hammer.

PTS: 1

5. Explain how each of the following could discourage economic growth:
- The government closes all of the schools so that more people will be available for work.
 - The country fears military invasion and spends half of its income on military goods.

ANS:

Economic growth depends on a country's willingness to sacrifice current consumption and invest in physical and/or human capital goods. Expanding the country's capital stock or improving the quality of its labour force allows it to produce more goods and services. Closing all of the schools will mean sacrificing investment in human capital in favour of current consumption. Likewise, choosing to spend half of available income on military goods will leave fewer resources for investment in non-military physical or human capital.

PTS: 1

6. Individuals who live outside of urban areas continue to build their houses and businesses further and further out, spreading into farming communities and uninhabited areas. What are the trade-offs involved in allowing this type of community expansion?

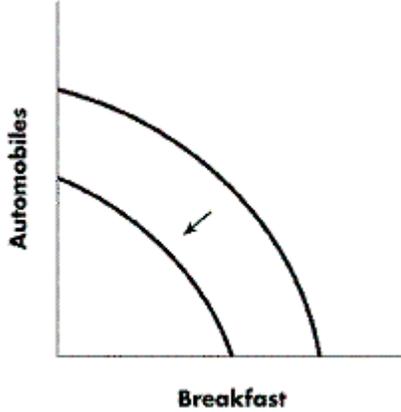
ANS:

As development expands, animals, farmers, and suburban dwellers compete for limited land resources. Interested parties argue with deep conviction about which use of land is the most important. Economics can help assess the respective costs of the decisions and trade-offs, but ultimately normative judgements must be made (through political and other means) as to how the land is best utilized.

PTS: 1

7. Illustrate a production possibilities curve for automobiles and breakfast cereal that is bowed outward. Show what is likely to happen to the production possibilities curve as a result of a devastating war on a country's home soil.

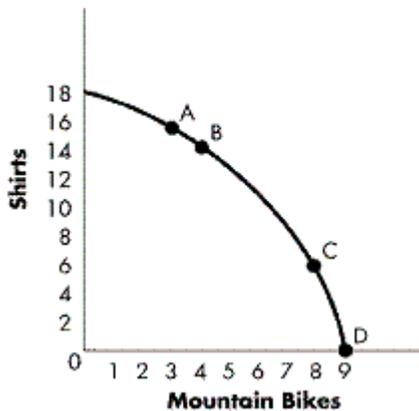
ANS:



The production possibilities curve is likely to shift inward when economic resources are destroyed during a war.

PTS: 1

FIGURE 2-14



8. Refer to Figure 2-14. Moving from Point A to Point B, what is the opportunity cost of producing a mountain bike?

ANS:

Two shirts

PTS: 1

9. Refer to Figure 2-14. Moving from Point C to Point D, what is the opportunity cost of producing a mountain bike?

ANS:

Six shirts

PTS: 1

10. Refer to the figure. Why is the opportunity cost of producing a mountain bike different when moving from Point A to Point B than when moving from Point C to Point D along the production possibilities curve?

ANS:

Some resources are more substitutable across productive tasks than are others. In moving from Point A to Point B, resources that are useful for producing bikes but less useful for producing shirts can be reallocated from shirt manufacturing toward bike manufacturing. Further increases in mountain bike production, such as the movement from Point C to Point D, can be obtained only by reallocating resources that are less well suited for bike production away from the production of shirts. As a result, the opportunity cost (in terms of the number of shirts sacrificed) increases as mountain bike production increases.

PTS: 1