

Chapter 3

Interdependence and the Gains from Trade

TRUE/FALSE

1. In most countries today, many goods and services consumed are imported from abroad, and many goods and services produced are exported to foreign customers.

ANS: T DIF: 1 REF: 3-0
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Trade MSC: Definitional

2. Interdependence among individuals and interdependence among nations are both based on the gains from trade.

ANS: T DIF: 2 REF: 3-0
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Interpretive

3. If a person chooses self-sufficiency, then she can only consume what she produces.

ANS: T DIF: 1 REF: 3-1
NAT: Analytic LOC: The study of economics and definitions of economics
TOP: Self-sufficiency MSC: Definitional

4. If Wrex can produce more math problems per hour and more book reports per hour than Maxine can, then Wrex cannot gain from trading math problems and book reports with Maxine.

ANS: F DIF: 2 REF: 3-1
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Applicative

5. It is possible for the U.S. to gain from trade with Germany even if it takes U.S. workers fewer hours to produce every good than it takes German workers.

ANS: T DIF: 2 REF: 3-1
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Applicative

6. A production possibilities frontier is a graph that shows the combination of outputs that an economy should produce.

ANS: F DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

7. Production possibilities frontiers cannot be used to illustrate tradeoffs.

ANS: F DIF: 1 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Definitional

8. An economy can produce at any point on or inside its production possibilities frontier, but it cannot produce at points outside its production possibilities frontier.

ANS: T DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

9. Trade allows a country to consume outside its production possibilities frontier.

ANS: T DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier | Trade MSC: Interpretive

10. Opportunity cost refers to how many inputs a producer requires to produce a good.

ANS: F DIF: 1 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Definitional

11. Opportunity cost measures the trade-off between two goods that each producer faces.
 ANS: T DIF: 1 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Definitional
12. For a country producing two goods, the opportunity cost of one good will be the inverse of the opportunity cost of the other good.
 ANS: T DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Interpretive
13. Henry can make a bird house in 3 hours and he can make a bird feeder in 1 hour. The opportunity cost to Henry of making a bird house is 1/3 bird feeder.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative
14. Suppose that in one hour Dewey can produce either 10 bushels of corn or 20 yards of cloth. Then Dewey's opportunity cost of producing one bushel of corn is 1/2 yard of cloth.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative
15. Jake can complete an oil change in 45 minutes and he can write a poem in 90 minutes. Ming-la can complete an oil change in 30 minutes and she can write a poem in 90 minutes. Jake's opportunity cost of writing a poem is lower than Ming-la's opportunity cost of writing a poem.
 ANS: T DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative
16. Harry is a computer company executive, earning \$200 per hour managing the company and promoting its products. His daughter Quinn is a high school student, earning \$6 per hour helping her grandmother on the farm. Harry's computer is broken. He can repair it himself in one hour. Quinn can repair it in 10 hours. Harry's opportunity cost of repairing the computer is lower than Quinn's.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative
17. If one producer has the absolute advantage in the production of all goods, then that same producer will have the comparative advantage in the production of all goods as well.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Interpretive
18. If a country has the comparative advantage in producing a product, then that country must also have the absolute advantage in producing that product.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Interpretive
19. In an economy consisting of two people producing two goods, it is possible for one person to have the absolute advantage and the comparative advantage in both goods.
 ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Interpretive
20. If one producer is able to produce a good at a lower opportunity cost than some other producer, then the producer with the lower opportunity cost is said to have an absolute advantage in the production of that good.
 ANS: F DIF: 1 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Definitional

30. It takes Ross 6 hours to produce a bushel of corn and 2 hours to wash and polish a car. It takes Courtney 6 hours to produce a bushel of corn and 1 hour to wash and polish a car. Courtney and Ross cannot gain from specialization and trade, since it takes each of them 6 hours to produce 1 bushel of corn.

ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Applicative

31. Differences in opportunity cost allow for gains from trade.

ANS: T DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

32. As long as two people have different opportunity costs, each can gain from trade with the other, since trade allows each person to obtain a good at a price lower than his or her opportunity cost.

ANS: T DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

33. Trade allows a person to obtain goods at prices that are less than that person's opportunity cost because each person specializes in the activity for which he or she has the lower opportunity cost.

ANS: T DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

34. When each person specializes in producing the good in which he or she has a comparative advantage, each person can gain from trade but total production in the economy is unchanged.

ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

35. For both parties to gain from trade, the price at which they trade must lie exactly in the middle of the two opportunity costs.

ANS: F DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

36. Adam Smith was the author of the 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations*.

ANS: T DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and definitions of economics
 TOP: Economists MSC: Definitional

37. David Ricardo was the author of the 1817 book *Principles of Political Economy and Taxation*.

ANS: T DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and definitions of economics
 TOP: Economists MSC: Definitional

38. Adam Smith wrote that a person should never attempt to make at home what it will cost him more to make than to buy.

ANS: T DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and definitions of economics
 TOP: Economists MSC: Definitional

39. Adam Smith developed the theory of comparative advantage as we know it today.

ANS: F DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and definitions of economics
 TOP: Economists | Comparative advantage MSC: Definitional

40. Goods produced abroad and sold domestically are called exports and goods produced domestically and sold abroad are called imports.

ANS: F DIF: 1 REF: 3-3
 NAT: Analytic LOC: The study of economics and definitions of economics
 TOP: Exports | Imports MSC: Definitional

41. International trade may make some individuals in a nation better off, while other individuals are made worse off.

ANS: T DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

42. For international trade to benefit a country, it must benefit all citizens of that country.

ANS: F DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

43. Some countries win in international trade, while other countries lose.

ANS: F DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

44. Trade can make some individuals worse off, even as it makes the country as a whole better off.

ANS: T DIF: 1 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Definitional

45. Trade allows all countries to achieve greater prosperity.

ANS: T DIF: 1 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Definitional

SHORT ANSWER

1. Explain the difference between absolute advantage and comparative advantage. Which is more important in determining trade patterns, absolute advantage or comparative advantage? Why?

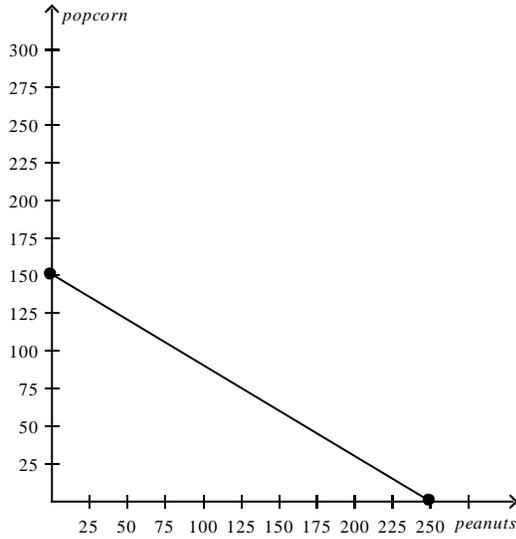
ANS:

Absolute advantage refers to productivity, as in the producer who can produce a product at a lower cost in terms of the resources used in production. Comparative advantage refers to the producer who can produce a product at a lower opportunity cost. Comparative advantage is the principle upon which trade patterns are based. Comparative advantage is based on opportunity cost, and opportunity cost measures the real cost to an individual or country of producing a particular product. Opportunity cost is therefore the information necessary for an individual or nation to determine whether to produce a good or buy it from someone else.

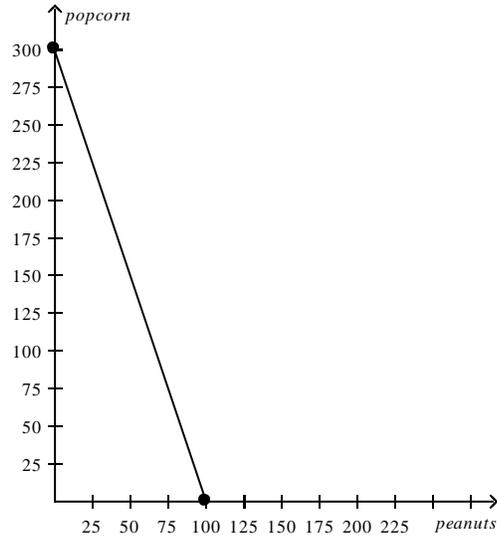
DIF: 2 REF: 3-2 NAT: Analytic
 LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage | Trade MSC: Interpretive

2. The only two countries in the world, Alpha and Omega, face the following production possibilities frontiers.

Alpha's Production Possibilities Frontier



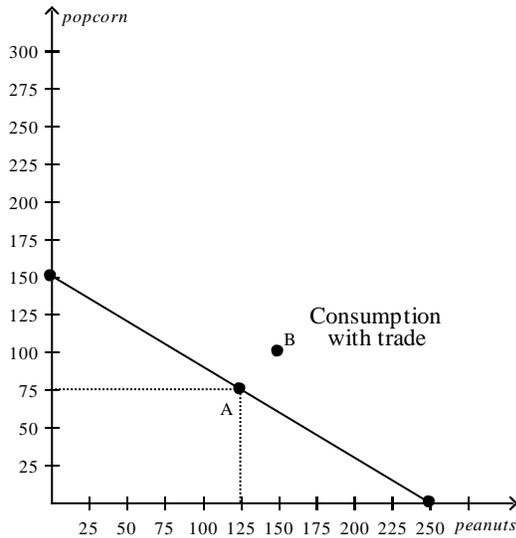
Omega's Production Possibilities Frontier



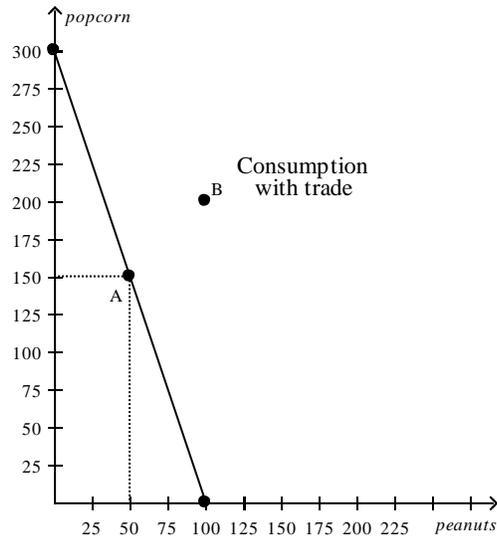
- Assume that each country decides to use half of its resources in the production of each good. Show these points on the graphs for each country as point A.
- If these countries choose not to trade, what would be the total world production of popcorn and peanuts?
- Now suppose that each country decides to specialize in the good in which each has a comparative advantage. By specializing, what is the total world production of each product now?
- If each country decides to trade 100 units of popcorn for 100 units of peanuts, show on the graphs the gain each country would receive from trade. Label these points B.

ANS:

Alpha's Production Possibilities Frontier



Omega's Production Possibilities Frontier



- a. Alpha would be producing 125 units of peanuts and 75 units of popcorn (point A on its production possibilities frontier) and Omega would be producing 50 units of peanuts and 150 units of popcorn (point A on its production possibilities frontier).
- b. The total world production of peanuts would be 175 units and the total world production of popcorn would be 225 units.
- c. The total world production of peanuts would now be 250 units and the total world production of popcorn would now be 300 units.
- d. Alpha would be producing 250 units of peanuts and would trade 100 of them to Omega, leaving Alpha with 150 units of peanuts. Alpha would then receive 100 units of popcorn from Omega. Omega would be producing 300 units of popcorn and would trade 100 of them to Alpha, leaving Omega with 200 units of popcorn. Omega would then receive 100 units of peanuts from Alpha.

DIF: 2 REF: 3-2 NAT: Analytic

LOC: Gains from trade, specialization and trade

TOP: Production possibilities frontier | Gains from trade MSC: Applicative

3. Julia can fix a meal in 1 hour, and her opportunity cost of one hour is \$50. Jacque can fix the same kind of meal in 2 hours, and his opportunity cost of one hour is \$20. Will both Julia and Jacque be better off if she pays him \$45 per meal to fix her meals? Explain.

ANS:

Since Julia's opportunity cost of preparing a meal is \$50, and Jacque's opportunity cost of preparing a meal is \$40, each of them will be better off by \$5 per meal if this arrangement is made.

DIF: 2 REF: 3-2 NAT: Analytic

LOC: Gains from trade, specialization and trade

TOP: Gains from trade

MSC: Applicative

4. Gary and Diane must prepare a presentation for their marketing class. As part of their presentation, they must do a series of calculations and prepare 50 PowerPoint slides. It would take Gary 10 hours to do the required calculation and 10 hours to prepare the slides. It would take Diane 12 hours to do the calculations and 20 hours to prepare the slides.
 - a. How much time would it take the two to complete the project if they divide the calculations equally and the slides equally?
 - b. How much time would it take the two to complete the project if they use comparative advantage and specialize in calculating or preparing slides?
 - c. If Diane and Gary have the same opportunity cost of \$5 per hour, is there a better solution than for each to specialize in calculating or preparing slides?

ANS:

- a. If both tasks are divided equally, it will take 11 hours for the calculations and 15 hours for the writing, for a total of 26 hours.
- b. If Diane specializes in calculating and Gary specializes in preparing slides, it will take 22 hours to complete the project.
- c. If Diane specializes in calculating, her opportunity cost will be \$60; hence, Diane would be better off if she paid Gary any amount less than \$60 to do the calculating. Since Gary's opportunity cost of doing the calculations is only \$50, he would be better off if Diane paid him between \$50 and \$60 dollars to do the calculations. In this case, the total time spent on the project would be 20 hours.

DIF: 2 REF: 3-2 NAT: Analytic

LOC: Gains from trade, specialization and trade

TOP: Gains from trade

MSC: Applicative

Sec00 - Interdependence and the Gains from Trade

MULTIPLE CHOICE

1. People who provide you with goods and services
- are acting out of generosity.
 - do so because they get something in return.
 - have chosen not to become interdependent.
 - are required to do so by the government.

ANS: B DIF: 1 REF: 3-0
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Definitional

2. When an economist points out that you and millions of other people are interdependent, he or she is referring to the fact that we all
- rely upon the government to provide us with the basic necessities of life.
 - rely upon one another for the goods and services we consume.
 - have similar tastes and abilities.
 - are concerned about one another's well-being.

ANS: B DIF: 1 REF: 3-0
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Interdependence MSC: Definitional

Sec01 - Interdependence and the Gains from Trade - A Parable for the Modern Economy

MULTIPLE CHOICE

1. Which of the following is *not* a reason people choose to depend on others for goods and services?
- to improve their lives
 - to allow them to enjoy a greater variety of goods and services
 - to consume more of each good without working any more hours
 - to allow people to produce outside their production possibilities frontiers

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Interpretive

2. When can two countries gain from trading two goods?
- when the first country can only produce the first good and the second country can only produce the second good
 - when the first country can produce both goods, but can only produce the second good at great cost, and the second country can produce both goods, but can only produce the first good at great cost
 - when the first country is better at producing both goods and the second country is worse at producing both goods
 - Two countries could gain from trading two goods under all of the above conditions.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

3. Regan grows flowers and makes ceramic vases. Jayson also grows flowers and makes ceramic vases, but Regan is better at producing both goods. In this case, trade could
- benefit both Jayson and Regan.
 - benefit Jayson, but not Regan.
 - benefit Regan, but not Jayson.
 - benefit neither Jayson nor Regan.

ANS: A DIF: 2 REF: 3-1
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Applicative

4. Ben bakes bread and Shawna knits sweaters. Ben and Shawna both like to eat bread and wear sweaters. In which of the following cases is it impossible for both Ben and Shawna to benefit from trade?
- Ben cannot knit sweaters and Shawna cannot bake bread.
 - Ben is better than Shawna at baking bread and Shawna is better than Ben at knitting sweaters.
 - Ben is better than Shawna at baking bread and at knitting sweaters.
 - Both Ben and Shawna can benefit from trade in all of the above cases.

ANS: D DIF: 2 REF: 3-1
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Applicative

5. Shannon bakes cookies and Justin grows vegetables. In which of the following cases is it impossible for both Shannon and Justin to benefit from trade?
- Shannon does not like vegetables and Justin does not like cookies.
 - Shannon is better than Justin at baking cookies and Justin is better than Shannon at growing vegetables.
 - Justin is better than Shannon at baking cookies and at growing vegetables.
 - Both Shannon and Justin can benefit from trade in all of the above cases.

ANS: A DIF: 2 REF: 3-1
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Applicative

6. The production possibilities frontier illustrates
- the combinations of output that an economy should produce.
 - the combinations of output that an economy should consume.
 - the combinations of output that an economy can produce.
 - All of the above are correct.

ANS: C DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

7. An economy's production possibilities frontier is also its consumption possibilities frontier
- under all circumstances.
 - under no circumstances.
 - when the economy is self-sufficient.
 - when the rate of tradeoff between the two goods being produced is constant.

ANS: C DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

8. A production possibilities frontier is bowed outward when
- the more resources the economy uses to produce one good, the fewer resources it has available to produce the other good.
 - an economy is self-sufficient instead of interdependent and engaged in trade.
 - the rate of tradeoff between the two goods being produced is constant.
 - the rate of tradeoff between the two goods being produced depends on how much of each good is being produced.

ANS: D DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Interpretive

9. A production possibilities frontier is a straight line when
- the more resources the economy uses to produce one good, the fewer resources it has available to produce the other good.
 - an economy is interdependent and engaged in trade instead of self-sufficient.
 - the rate of tradeoff between the two goods being produced is constant.
 - the rate of tradeoff between the two goods being produced depends on how much of each good is being produced.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Interpretive

10. The following table contains some production possibilities for an economy for a given month.

Sweaters	Gloves
4	300
6	?
8	100

If the production possibilities frontier is bowed outward, then “?” could be

- 100.
- 150.
- 200.
- 250.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

11. The following table contains some production possibilities for an economy for a given month.

Sweaters	Gloves
4	300
6	?
8	100

If the production possibilities frontier is a straight line, then “?” must be

- 100.
- 150.
- 200.
- 250.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

12. The following table contains some production possibilities for an economy for a given year.

Cars	Newspapers
10	400
12	360
14	?

If the production possibilities frontier is bowed outward, then “?” could be

- 340.
- 330.
- 320.
- 310.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

13. The following table contains some production possibilities for an economy for a given year.

Cars	Newspapers
10	400
12	360
14	?

If the production possibilities frontier is a straight line, then “?” must be

- a. 340.
- b. 330.
- c. 320.
- d. 310.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

14. The following table contains some production possibilities for an economy for a given month.

Bagels	Donuts
40	150
60	?
80	50

If the production possibilities frontier is bowed outward, then “?” could be

- a. 50.
- b. 75.
- c. 100.
- d. 125.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

15. The following table contains some production possibilities for an economy for a given month.

Bagels	Donuts
40	150
60	?
80	50

If the production possibilities frontier is a straight line, then “?” must be

- a. 50.
- b. 75.
- c. 100.
- d. 125.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

Sec02 - Interdependence and the Gains from Trade - Comparative Advantage: The Driving Force of Specialization

MULTIPLE CHOICE

1. Assume for the United States that the opportunity cost of each airplane is 100 cars. Then which of these pairs of points could be on the United States' production possibilities frontier?
- (200 airplanes, 5,000 cars) and (150 airplanes, 4,000 cars)
 - (200 airplanes, 10,000 cars) and (150 airplanes, 20,000 cars)
 - (300 airplanes, 15,000 cars) and (200 airplanes, 25,000 cars)
 - (300 airplanes, 25,000 cars) and (200 airplanes, 40,000 cars)

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

2. Assume for Namibia that the opportunity cost of each hut is 200 bowls. Then which of these pairs of points could be on Namibia's production possibilities frontier?
- (200 huts, 30,000 bowls) and (150 huts, 35,000 bowls)
 - (200 huts, 40,000 bowls) and (150 huts, 30,000 bowls)
 - (300 huts, 50,000 bowl) and (200 huts, 60,000 bowls)
 - (300 huts, 60,000 bowls) and (200 huts, 80,000 bowls)

ANS: D DIF: 3 REF: 3-2
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier | Opportunity cost MSC: Analytical

3. What must be given up to obtain an item is called
- out-of-pocket cost.
 - comparative worth.
 - opportunity cost.
 - absolute value.

ANS: C DIF: 1 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Definitional

4. The opportunity cost of an item is
- the number of hours that one must work in order to buy one unit of the item.
 - what you give up to get that item.
 - always less than the dollar value of the item.
 - always greater than the cost of producing the item.

ANS: B DIF: 1 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Definitional

5. A farmer has the ability to grow either corn or cotton or some combination of the two. Given no other information, it follows that the farmer's opportunity cost of a bushel of corn multiplied by his opportunity cost of a bushel of cotton
- is equal to 0.
 - is between 0 and 1.
 - is equal to 1.
 - is greater than 1.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Interpretive

6. If Korea is capable of producing either shoes or soccer balls or some combination of the two, then
- Korea should specialize in the product in which it has an absolute advantage.
 - it would be impossible for Korea to have an absolute advantage over another country in both products.
 - it would be difficult for Korea to benefit from trade with another country if Korea is efficient in the production of both goods.
 - Korea's opportunity cost of shoes is the inverse of its opportunity cost of soccer balls.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

7. Suppose a gardener produces both green beans and corn in her garden. If she must give up 14 bushels of corn to get 5 bushels of green beans, then her opportunity cost of 1 bushel of green beans is
- 0.36 bushel of corn.
 - 2.8 bushels of corn.
 - 14 bushels of corn.
 - 70 bushels of corn.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

8. Suppose a gardener produces both green beans and corn in her garden. If the opportunity cost of one bushel of corn is $\frac{3}{5}$ bushel of green beans, then the opportunity cost of 1 bushel of green beans is
- $\frac{3}{5}$ bushel of corn.
 - $\frac{5}{3}$ bushels of corn.
 - 3 bushels of corn.
 - 5 bushels of corn.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

9. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that the opportunity cost of 1 chair is
- $\frac{1}{5}$ table for Mike and $\frac{1}{3}$ table for Sandy.
 - $\frac{1}{5}$ table for Mike and 3 tables for Sandy.
 - 5 tables for Mike and $\frac{1}{3}$ table for Sandy.
 - 5 tables for Mike and 3 tables for Sandy.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

10. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that the opportunity cost of 1 table is
- $\frac{1}{5}$ chair for Mike and $\frac{1}{3}$ chair for Sandy.
 - $\frac{1}{5}$ chair for Mike and 3 chairs for Sandy.
 - 5 chairs for Mike and $\frac{1}{3}$ chair for Sandy.
 - 5 chairs for Mike and 3 chairs for Sandy.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

11. If he devotes all of his available resources to cantaloupe production, a farmer can produce 120 cantaloupes. If he sacrifices 1.5 watermelons for each cantaloupe that he produces, it follows that
- if he devotes all of his available resources to watermelon production, then he can produce 80 watermelons.
 - he cannot have a comparative advantage over other farmers in producing cantaloupes.
 - his opportunity cost of one watermelon is $\frac{2}{3}$ of a cantaloupe.
 - his production possibilities frontier is bowed-out.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

12. Absolute advantage is found by comparing different producers'
- opportunity costs.
 - payments to land, labor, and capital.
 - input requirements per unit of output.
 - locational and logistical circumstances.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Interpretive

13. The producer that requires a smaller quantity of inputs to produce a certain amount of a good, relative to the quantities of inputs required by other producers to produce the same amount of that good,
- has a low opportunity cost of producing that good, relative to the opportunity costs of other producers.
 - has a comparative advantage in the production of that good.
 - has an absolute advantage in the production of that good.
 - should be the only producer of that good.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Interpretive

14. If Shawn can produce more donuts in one day than Sue can produce in one day, then
- Shawn has a comparative advantage in the production of donuts.
 - Sue has a comparative advantage in the production of donuts.
 - Shawn has an absolute advantage in the production of donuts.
 - Sue has an absolute advantage in the production of donuts.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

15. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- Mike has an absolute advantage in chairs.
 - Mike has a comparative advantage in tables.
 - Sandy has an absolute advantage in chairs.
 - Sandy has a comparative advantage in chairs.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

16. Travis can mow a lawn in two hours or he can trim a tree in one hour. Ricardo can mow a lawn in three hours or he can trim a tree in two hours.
- Travis has an absolute advantage over Ricardo in trimming trees.
 - Travis has a comparative advantage over Ricardo in mowing lawns.
 - Ricardo has a comparative advantage over Travis in trimming trees.
 - All of the above are correct.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

17. Suppose Susan can wash three windows per hour or she can iron six shirts per hour. Paul can wash two windows per hour or he can iron five shirts per hour.
- Susan has an absolute advantage over Paul in washing windows.
 - Susan has a comparative advantage over Paul in washing windows.
 - Paul has a comparative advantage over Susan in ironing shirts.
 - All of the above are correct.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Absolute advantage | Comparative advantage MSC: Applicative

18. Suppose Jim and Tom can both produce two goods: baseball bats and hockey sticks. Which of the following is *not* possible?
- Jim has an absolute advantage in the production of baseball bats and in the production of hockey sticks.
 - Jim has an absolute advantage in the production of baseball bats and a comparative advantage in the production of hockey sticks.
 - Jim has an absolute advantage in the production of hockey sticks and a comparative advantage in the production of baseball bats.
 - Jim has a comparative advantage in the production of baseball bats and in the production of hockey sticks.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

19. Kelly and David are both capable of repairing cars and cooking meals. Which of the following scenarios is *not* possible?
- Kelly has a comparative advantage in repairing cars and David has a comparative advantage in cooking meals.
 - Kelly has an absolute advantage in repairing cars and David has an absolute advantage in cooking meals.
 - Kelly has a comparative advantage in repairing cars and in cooking meals.
 - David has an absolute advantage in repairing cars and in cooking meals.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

20. Suppose Jim and Tom can both produce baseball bats. If Jim's opportunity cost of producing baseball bats is lower than Tom's opportunity cost of producing baseball bats, then
- Tom must have an absolute advantage in the production of baseball bats.
 - Jim must have an absolute advantage in the production of baseball bats.
 - Tom has a comparative advantage in the production of baseball bats.
 - Jim has a comparative advantage in the production of baseball bats.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

21. If Shawn can produce donuts at a lower opportunity cost than Sue, then
- Shawn has a comparative advantage in the production of donuts.
 - Sue has a comparative advantage in the production of donuts.
 - Shawn should not produce donuts.
 - Shawn is capable of producing more donuts than Sue in a given amount of time.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

22. If Iowa's opportunity cost of corn is lower than Oklahoma's opportunity cost of corn, then
- Iowa has a comparative advantage in the production of corn.
 - Iowa has an absolute advantage in the production of corn.
 - Iowa should import corn from Oklahoma.
 - Oklahoma should produce just enough corn to satisfy its own residents' demands.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

23. Canada and the U.S. both produce wheat and computer software. Canada is said to have the comparative advantage in producing wheat if
- Canada requires fewer resources than the U.S. to produce a bushel of wheat.
 - the opportunity cost of producing a bushel of wheat is lower for Canada than it is for the U.S.
 - the opportunity cost of producing a bushel of wheat is lower for the U.S. than it is for Canada.
 - the U.S. has an absolute advantage over Canada in producing computer software.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

24. Comparative advantage is related most closely to which of the following?
- output per hour
 - opportunity cost
 - efficiency
 - bargaining strength in international trade

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

25. For two individuals who engage in the same two productive activities, it is impossible for one of the two individuals to
- have a comparative advantage in both activities.
 - have an absolute advantage in both activities.
 - be more productive per unit of time in both activities.
 - gain from trade with each other.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

26. Two individuals engage in the same two productive activities. In which of the following circumstances would neither individual have a comparative advantage in either activity?
- One individual's production possibilities frontier is steeper than the other individual's production possibilities frontier.
 - One individual is faster at both activities than the other individual.
 - One individual's opportunity costs are the same as the other individual's opportunity costs.
 - None of the above is correct; one of the two individuals always will have a comparative advantage in at least one of the two activities.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

27. Which of the following statements about comparative advantage is *not* true?
- Comparative advantage is determined by which person or group of persons can produce a given quantity of a good using the fewest resources.
 - The principle of comparative advantage applies to countries as well as to individuals.
 - Economists use the principle of comparative advantage to emphasize the potential benefits of free trade.
 - A country may have a comparative advantage in producing a good, even though it lacks an absolute advantage in producing that good.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

28. The principle of comparative advantage does not provide answers to certain questions. One of those questions is
- Do specialization and trade benefit more than one party to a trade?
 - Is it absolute advantage or comparative advantage that really matters?
 - How are the gains from trade shared among the parties to a trade?
 - Is it possible for specialization and trade to increase total output of traded goods?

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

29. The principle of comparative advantage does not provide answers to certain questions. One of those questions is
- Is it possible for specialization and trade to benefit more than one party to a trade?
 - Is it possible for specialization and trade to increase total output of traded goods?
 - Do opportunity costs play a role in people's decisions to specialize in certain activities?
 - What determines the price at which trade takes place?

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

30. Which of the following is *not* correct?
- The producer who requires a smaller quantity of inputs to produce a good is said to have an absolute advantage in producing that good.
 - The producer who gives up less of other goods to produce Good X has the smaller opportunity cost of producing Good X.
 - The producer who has the smaller opportunity cost of producing a good is said to have a comparative advantage in producing that good.
 - The gains from specialization and trade are based not on comparative advantage but on absolute advantage.

ANS: D DIF: 1 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Definitional

31. Suppose that a worker in Cornland can grow either 40 bushels of corn or 10 bushels of oats per year, and a worker in Oatland can grow either 20 bushels of corn or 5 bushels of oats per year. There are 20 workers in Cornland and 20 workers in Oatland. Which of the following statements is true?
- Both countries could gain from trade with each other.
 - Neither country could gain from trade with each other because Cornland has an absolute advantage in both goods.
 - Neither country could gain from trade with each other because neither one has a comparative advantage.
 - Oatland could gain from trade between the two countries, but Cornland definitively would lose.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Analytical

32. Suppose that the country of Xenophobia chose to isolate itself from the rest of the world. Its ruler proclaimed that Xenophobia should become self-sufficient, so it would not engage in foreign trade. From an economic perspective, this idea would
- make sense if Xenophobia had an absolute advantage in all goods.
 - make sense if Xenophobia had no absolute advantages in any good.
 - not make sense as long as Xenophobia had a comparative advantage in some good.
 - not make sense as long as Xenophobia had an absolute advantage in at least half the goods that could be traded.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Applicative

33. Specialization and trade are closely linked to
- absolute advantage.
 - comparative advantage.
 - gains to some traders that exactly offset losses to other traders.
 - shrinkage of the economic pie.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Interpretive

34. When each person specializes in producing the good in which he or she has a comparative advantage, total production in the economy
- falls.
 - stays the same.
 - rises.
 - may fall, rise, or stay the same.

ANS: C DIF: 1 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Definitional

35. Total output in an economy increases when each person specializes because
- there is less competition for the same resources.
 - each person spends more time producing that product in which he or she has a comparative advantage.
 - a wider variety of products will be produced within each country due to specialization.
 - government necessarily plays a larger role in the economy due to specialization.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Interpretive

36. Which of the following statements is *not* correct?
- Trade allows for specialization.
 - Trade has the potential to benefit all nations.
 - Trade allows nations to consume outside of their production possibilities curves.
 - Absolute advantage is the driving force of specialization.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Interpretive

37. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. Also assume that Germany has an absolute advantage in both fish and cars. If these two countries specialize and trade so as to maximize the benefits of specialization and trade, then
- the two countries' combined output of both goods will be higher than it would be in the absence of trade.
 - Greece will produce more fish than it would produce in the absence of trade.
 - Germany will produce more cars than it would produce in the absence of trade.
 - All of the above are correct.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

38. Suppose that a worker in Radioland can produce either 4 radios or 1 television per year and a worker in Teeveeland can produce either 2 radios or 5 televisions per year. Each nation has 100 workers, and each country specializes according to the principle of comparative advantage. If Radioland trades 100 televisions to Teeveeland in exchange for 100 radios each year, then each country's maximum consumption of new radios and televisions per year will be
- higher than it would be in the absence of trade because of the gains from trade.
 - the same as it would be in the absence of trade.
 - less than it would be in the absence of trade because neither country is specializing in the product in which it has a comparative advantage.
 - less than it would be in the absence of trade because Teeveeland has an absolute advantage in both goods and so it cannot benefit by trading with Radioland.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

39. Suppose that a worker in Radioland can produce either 4 radios or 1 television per year, and a worker in Teeveeland can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Also suppose that each country completely specializes in producing the good in which it has a comparative advantage. If Radioland trades 100 radios to Teeveeland in exchange for 100 televisions each year, then each country's maximum consumption of new radios and televisions per year will be
- 100 radios, 300 televisions in Radioland and 300 radios, 100 televisions in Teeveeland.
 - 300 radios, 100 televisions in Radioland and 100 radios, 300 televisions in Teeveeland.
 - 200 radios, 100 televisions in Radioland and 100 radios, 200 televisions in Teeveeland.
 - 300 radios, 100 televisions in Radioland and 100 radios, 400 televisions in Teeveeland.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

40. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. Suppose that trade is then initiated between the two countries, and Freedonia sends 30 units of corn to Sylvania in exchange for 30 units of wheat. Freedonia will now be able to consume a maximum of
- 30 units of corn and 30 units of wheat.
 - 40 units of corn and 30 units of wheat.
 - 40 units of corn and 20 units of wheat.
 - 10 units of corn and 40 units of wheat.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

41. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. Suppose that trade is then initiated between the two countries, and Freedonia sends 30 units of corn to Sylvania in exchange for 30 units of wheat. Sylvania will now be able to consume a maximum of
- 30 units of corn and 30 units of wheat.
 - 40 units of corn and 30 units of wheat.
 - 40 units of corn and 20 units of wheat.
 - 10 units of corn and 40 units of wheat.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

42. Suppose that a worker in Agland can produce either 10 units of organic grain or 2 units of incense per year, and a worker in Zenland can produce either 5 units of organic grain or 15 units of incense per year. There are 20 workers in Agland and 10 workers in Zenland. Currently the two countries do not trade. Agland produces and consumes 100 units of grain and 20 units of incense per year. Zenland produces and consumes 50 units of grain and no incense per year. If each country made the decision to specialize in producing the good in which it has a comparative advantage, then the combined yearly output of the two countries would increase by
- 30 units of grain and 100 units of incense.
 - 30 units of grain and 150 units of incense.
 - 50 units of grain and 90 units of incense.
 - 50 units of grain and 130 units of incense.

ANS: D DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

43. Suppose that a worker in Cornland can grow either 40 bushels of corn or 10 bushels of oats per year, and a worker in Oatland can grow either 5 bushels of corn or 50 bushels of oats per year. There are 20 workers in Cornland and 20 workers in Oatland. If the two countries do not trade, Cornland will produce and consume 400 bushels of corn and 100 bushels of oats, while Oatland will produce and consume 60 bushels of corn and 400 bushels of oats. If each country made the decision to specialize in producing the good in which it has a comparative advantage, then the combined yearly output of the two countries would increase by
- 280 bushels of corn and 450 bushels of oats.
 - 340 bushels of corn and 500 bushels of oats.
 - 360 bushels of corn and 520 bushels of oats.
 - 360 bushels of corn and 640 bushels of oats.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

44. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. For many years the two countries traded, each completely specializing according to their respective comparative advantages. Now, however, war has broken out between them and all trade has stopped. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. The war has caused the combined yearly output of the two countries to decline by
- 10 units of corn and 10 units of wheat.
 - 20 units of corn and 20 units of wheat.
 - 30 units of corn and 30 units of wheat.
 - 40 units of corn and 40 units of wheat.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

45. Suppose that a worker in Caninia can produce either 2 blankets or 8 meals per day, and a worker in Felinia can produce either 5 blankets or 1 meal per day. Each nation has 10 workers. For many years, the two countries traded, each completely specializing according to their respective comparative advantages. Now war has broken out between them and all trade has stopped. Without trade, Caninia produces and consumes 10 blankets and 40 meals per day and Felinia produces and consumes 25 blankets and 5 meals per day. The war has caused the combined daily output of the two countries to decline by
- 15 blankets and 35 meals.
 - 25 blankets and 40 meals.
 - 35 blankets and 45 meals.
 - 50 blankets and 80 meals.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

46. Two people can benefit from specialization and trade by obtaining a good at a price that is
- lower than his or her opportunity cost of that good.
 - the same as his or her opportunity cost of that good.
 - higher than his or her opportunity cost of that good.
 - different than his or her opportunity cost of that good.

ANS: A DIF: 1 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Definitional

47. The gains from trade are
- evident in economic models, but seldom observed in the real world.
 - evident in the real world, but impossible to capture in economic models.
 - a result of more efficient resource allocation than would be observed in the absence of trade.
 - based on the principle of absolute advantage.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

48. Trade can make everybody better off because it
- increases cooperation among nations.
 - allows people to specialize according to comparative advantage.
 - requires some workers in an economy to be retrained.
 - reduces competition among domestic companies.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

49. If labor in Mexico is less productive than labor in the United States in all areas of production,
- then neither nation can benefit from trade.
 - then Mexico can benefit from trade but the United States cannot.
 - then the United States will have a comparative advantage relative to Mexico in the production of all goods.
 - then both Mexico and the United States still can benefit from trade.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Applicative

50. Adam Smith
- and David Ricardo both opposed free trade.
 - opposed free trade, but David Ricardo supported it.
 - supported free trade, but David Ricardo opposed it.
 - and David Ricardo both supported free trade.

ANS: D DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and the definitions of economics
 TOP: Economists MSC: Interpretive

51. Adam Smith asserted that a person should never attempt to make at home
- what it will cost him more to make than to buy.
 - any good in which that person does not have an absolute advantage.
 - any luxury good.
 - any necessity.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: The study of economics and the definitions of economics
 TOP: Economists MSC: Interpretive

52. Which famous economist developed the principle of comparative advantage as we know it today?
- Adam Smith
 - David Ricardo
 - John Maynard Keynes
 - Milton Friedman

ANS: B DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and the definitions of economics
 TOP: Economists MSC: Definitional

53. Which of the following is *not* correct?
- Economists are generally united in their support of free trade.
 - The conclusions of Adam Smith and David Ricardo on the gains from trade have held up well over time.
 - David Ricardo argued that Britain should not restrict imports of grain.
 - Economists' opposition to trade restrictions is still based largely on the principle of absolute advantage.

ANS: D DIF: 1 REF: 3-2
 NAT: Analytic LOC: The study of economics and the definitions of economics
 TOP: Economists MSC: Definitional

54. Economists generally support
- trade restrictions.
 - government management of trade.
 - export subsidies.
 - free international trade.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: The study of economics and the definitions of economics
 TOP: Economists MSC: Interpretive

Sec03 - Interdependence and the Gains from Trade - Applications of Comparative Advantage

MULTIPLE CHOICE

1. By definition, imports are
- people who work in foreign countries.
 - goods in which a country has an absolute advantage.
 - limits placed on the quantity of goods leaving a country.
 - goods produced abroad and sold domestically.

ANS: D DIF: 1 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Imports MSC: Definitional

2. By definition, exports are
- limits placed on the quantity of goods brought into a country.
 - goods in which a country has an absolute advantage.
 - people who work in foreign countries.
 - goods produced domestically and sold abroad.

ANS: D DIF: 1 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Exports MSC: Definitional

3. Trade between countries
- allows each country to consume at a point outside its production possibilities frontier.
 - limits a country's ability to produce goods and services on its own.
 - must benefit both countries equally; otherwise, trade is not mutually beneficial.
 - can best be understood by examining the countries' absolute advantages.

ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Interpretive

4. When a country has a comparative advantage in producing a certain good,
- the country should import that good.
 - the country should produce just enough of that good for its own consumption.
 - the country's opportunity cost of that good is high relative to other countries' opportunity costs of that same good.
 - None of the above is correct.

ANS: D DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Interpretive

5. Which of the following would *not* result from all countries specializing according to the principle of comparative advantage?
- The size of the economic pie would increase.
 - Worldwide production of goods and services would increase.
 - The well-being of citizens in each country would be enhanced.
 - Each country's production possibilities frontier would shift outward.

ANS: D DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Interpretive

6. A country that currently does not trade with other countries could benefit by
- restricting imports and promoting exports.
 - promoting imports and restricting exports.
 - restricting both imports and exports.
 - not restricting trade.

ANS: D DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Interpretive

7. Suppose the United States has a comparative advantage over Mexico in producing pork. The principle of comparative advantage asserts that
- the United States should produce more pork than what it requires and export some of it to Mexico.
 - the United States should produce a moderate quantity of pork and import the remainder of what it requires from Mexico.
 - the United States should refrain altogether from producing pork and import all of what it requires from Mexico.
 - Mexico has nothing to gain from importing United States pork.

ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Applicative

8. Belarus has a comparative advantage in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade,
- Belarus should export linen to Russia.
 - Russia should export linen to Belarus.
 - trading linen would provide no net advantage to either country.
 - Without additional information about opportunity costs, this question cannot be answered.

ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Applicative

9. Suppose that a worker in Boatland can produce either 5 units of wheat or 25 units of fish per year, and a worker in Farmland can produce either 25 units of wheat or 5 units of fish per year. There are 10 workers in each country. Political pressure from the fish lobby in Farmland and from the wheat lobby in Boatland has prevented trade between the two countries on the grounds that cheap imports would kill the fish industry in Farmland and the wheat industry in Boatland. As a result, Boatland produces and consumes 25 units of wheat and 125 units of fish per year while Farmland produces and consumes 125 units of wheat and 25 units of fish per year. If the political pressure were overcome and trade were to occur, each country would completely specialize in the product in which it has a comparative advantage. If trade were to occur, the combined output of the two countries would increase by
- 25 units of wheat and 25 units of fish.
 - 50 units of wheat and 50 units of fish.
 - 75 units of wheat and 75 units of fish.
 - 100 units of wheat and 100 units of fish.

ANS: D DIF: 3 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

10. Suppose that a worker in Boatland can produce either 5 units of wheat or 25 units of fish per year, and a worker in Farmland can produce either 25 units of wheat or 5 units of fish per year. There are 30 workers in each country. No trade occurs between the two countries. Boatland produces and consumes 75 units of wheat and 375 units of fish per year while Farmland produces and consumes 375 units of wheat and 75 units of fish per year. If trade were to occur, Boatland would trade 90 units of fish to Farmland in exchange for 80 units of wheat. If Boatland now completely specializes in fish production, how many units of fish could it now consume along with the 80 units of imported wheat?
- 490 units
 - 500 units
 - 610 units
 - 660 units

ANS: D DIF: 3 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Trade MSC: Analytical

Sec01-03 - Tables & Figures - Interdependence and the Gains from Trade

MULTIPLE CHOICE

Table 3-1

Assume that Sardi and Tinaka can switch between producing corn and producing pork at a constant rate.

	Minutes Needed to Make 1	
	Bushel of Corn	Pound of Pork
Sardi	20	12
Tinaka	15	10

1. **Refer to Table 3-1.** Assume that Sardi and Tinaka each has 360 minutes available. If each person divides his time equally between the production of corn and pork, then total production is
- 10.5 bushels of corn and 16.5 pounds of pork.
 - 21 bushels of corn and 33 pounds of pork.
 - 35 bushels of corn and 22 pounds of pork.
 - 42 bushels of corn and 66 pounds of pork.

ANS: B DIF: 2 REF: 3-1

NAT: Analytic LOC: Understanding and applying economic models

TOP: Production MSC: Applicative

2. **Refer to Table 3-1.** Which of the following combinations of corn and pork could Sardi produce in one 8-hour day?
- 6 bushels of corn and 35 pounds of pork
 - 9 bushels of corn and 25 pounds of pork
 - 15 bushels of corn and 20 pounds of pork
 - 24 bushels of corn and 40 pounds of pork

ANS: B DIF: 3 REF: 3-1

NAT: Analytic LOC: Understanding and applying economic models

TOP: Production MSC: Analytical

3. **Refer to Table 3-1.** Which of the following combinations of corn and pork could Tinaka *not* produce in one 10-hour day?
- 10 bushels of corn and 45 pounds of pork
 - 20 bushels of corn and 30 pounds of pork
 - 25 bushels of corn and 25 pounds of pork
 - 30 bushels of corn and 15 pounds of pork

ANS: C DIF: 3 REF: 3-1

NAT: Analytic LOC: Understanding and applying economic models

TOP: Production MSC: Analytical

4. **Refer to Table 3-1.** What is Sardi's opportunity cost of producing one bushel of corn?
- $\frac{3}{5}$ pound of pork
 - $\frac{6}{5}$ pounds of pork
 - $\frac{4}{3}$ pounds of pork
 - $\frac{5}{3}$ pounds of pork

ANS: D DIF: 2 REF: 3-2

NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Opportunity cost MSC: Applicative

5. **Refer to Table 3-1.** What is Sardi's opportunity cost of producing one pound of pork?
- $3/5$ bushel of corn
 - $6/5$ bushels of corn
 - $4/3$ bushels of corn
 - $5/3$ bushels of corn

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

6. **Refer to Table 3-1.** What is Tinaka's opportunity cost of producing one bushel of corn?
- $2/3$ pound of pork
 - $3/4$ pound of pork
 - $5/6$ pound of pork
 - $3/2$ pounds of pork

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

7. **Refer to Table 3-1.** What is Tinaka's opportunity cost of producing one pound of pork?
- $2/3$ bushel of corn
 - $3/4$ bushel of corn
 - $5/6$ bushel of corn
 - $3/2$ bushels of corn

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

8. **Refer to Table 3-1.** Sardi has an absolute advantage in the production of
- corn and Tinaka has an absolute advantage in the production of pork.
 - pork and Tinaka has an absolute advantage in the production of corn.
 - both goods and Tinaka has an absolute advantage in the production of neither good.
 - neither good and Tinaka has an absolute advantage in the production of both goods.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

9. **Refer to Table 3-1.** Sardi has a comparative advantage in the production of
- corn and Tinaka has a comparative advantage in the production of pork.
 - pork and Tinaka has a comparative advantage in the production of corn.
 - both goods and Tinaka has a comparative advantage in the production of neither good.
 - neither good and Tinaka has a comparative advantage in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

10. **Refer to Table 3-1.** Sardi should specialize in the production of
- corn and Tinaka should specialize in the production of pork.
 - pork and Tinaka should specialize in the production of corn.
 - both goods and Tinaka should specialize in the production of neither good.
 - neither good and Tinaka should specialize in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

11. **Refer to Table 3-1.** Assume that Sardi and Tinaka each has 60 minutes available. If each person spends all his time producing the good in which he has a comparative advantage, then total production is
- 3 bushels of corn and 6 pounds of pork.
 - 3.5 bushels of corn and 5.5 pounds of pork.
 - 4 bushels of corn and 5 pounds of pork.
 - 7 bushels of corn and 11 pounds of pork.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

12. **Refer to Table 3-1.** At which of the following prices would both Sardi and Tinaka gain from trade with each other?
- 6 bushels of corn for 10.5 pounds of pork
 - 12 bushels of corn for 19 pounds of pork
 - 24 bushels of corn for 34 pounds of pork
 - Sardi and Tinaka could not both gain from trade with each other at any price.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

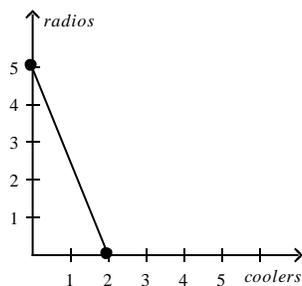
Table 3-2

Assume that Aruba and Iceland can switch between producing coolers and producing radios at a constant rate.

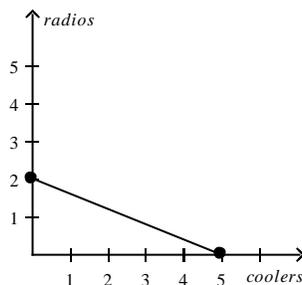
	Labor Hours Needed to Make 1	
	Cooler	Radio
Aruba	2	5
Iceland	1	4

13. **Refer to Table 3-2.** Which of the following represents Aruba's production possibilities frontier when 100 labor hours are available?

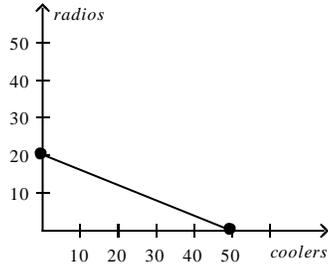
a.



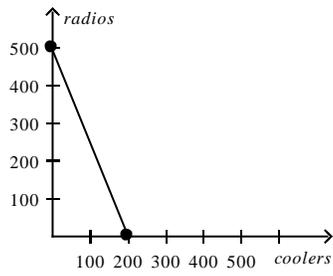
b.



c.



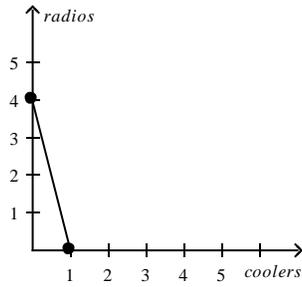
d.



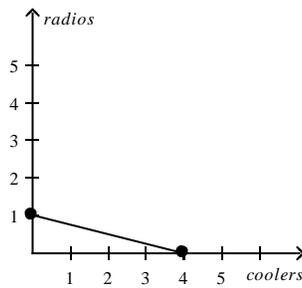
ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

14. **Refer to Table 3-2.** Which of the following represents Iceland's production possibilities frontier when 100 labor hours are available?

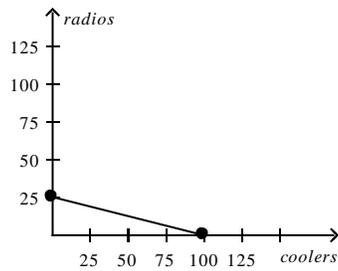
a.



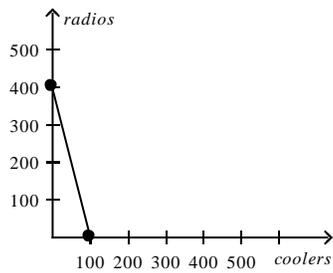
b.



c.



d.



ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Applicative

15. **Refer to Table 3-2.** Assume that Aruba and Iceland each has 80 labor hours available. If each country divides its time equally between the production of coolers and radios, then total production is
- 28 coolers and 50 radios.
 - 30 coolers and 9 radios.
 - 60 coolers and 18 radios.
 - 120 coolers and 36 radios.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

16. **Refer to Table 3-2.** Which of the following combinations of coolers and radios could Aruba produce in one 40-hour week?
- 3 coolers and 7 radios
 - 5 coolers and 6 radios
 - 11 coolers and 4 radios
 - 13 coolers and 3 radios

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

17. **Refer to Table 3-2.** Aruba's opportunity cost of one cooler is
- 0.4 radio and Iceland's opportunity cost of one cooler is 0.25 radio.
 - 0.4 radio and Iceland's opportunity cost of one cooler is 4 radios.
 - 2.5 radios and Iceland's opportunity cost of one cooler is 0.25 radio.
 - 2.5 radios and Iceland's opportunity cost of one cooler is 4 radios.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

18. **Refer to Table 3-2.** Suppose Aruba decides to increase its production of radios by 10. What is the opportunity cost of this decision?
- 0.25 coolers
 - 2.5 coolers
 - 4 coolers
 - 25 coolers

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

19. **Refer to Table 3-2.** Aruba has an absolute advantage in the production of
- coolers and Iceland has an absolute advantage in the production of radios.
 - radios and Iceland has an absolute advantage in the production of coolers.
 - both goods and Iceland has an absolute advantage in the production of neither good.
 - neither good and Iceland has an absolute advantage in the production of both goods.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

20. **Refer to Table 3-2.** Aruba has a comparative advantage in the production of
- coolers and Iceland has a comparative advantage in the production of radios.
 - radios and Iceland has a comparative advantage in the production of coolers.
 - both goods and Iceland has a comparative advantage in the production of neither good.
 - neither good and Iceland has a comparative advantage in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

21. **Refer to Table 3-2.** Aruba should specialize in the production of
- coolers and Iceland should specialize in the production of radios.
 - radios and Iceland should specialize in the production of coolers.
 - both goods and Iceland should specialize in the production of neither good.
 - neither good and Iceland should specialize in the production of both goods.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Applicative

22. **Refer to Table 3-2.** Assume that Aruba and Iceland each has 80 labor hours available. Originally, each country divided its time equally between the production of coolers and radios. Now, each country spends all its time producing the good in which it has a comparative advantage. As a result, the total output of coolers increased by
- 20.
 - 40.
 - 60.
 - 80.

ANS: A DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Analytical

23. **Refer to Table 3-2.** At which of the following prices would both Aruba and Iceland gain from trade with each other?
- 2 radios for 4 coolers
 - 2 radio for 6 coolers
 - 2 radio for 10 coolers
 - Aruba and Iceland could not both gain from trade with each other at any price.

ANS: B DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Price of trade MSC: Analytical

24. **Refer to Table 3-2.** Aruba and Iceland would *not* be able to gain from trade if Iceland's opportunity cost of one radio changed to
- 0 coolers.
 - 0.25 coolers.
 - 2.5 coolers.
 - Aruba and Iceland can always gain from trade regardless of their opportunity costs.

ANS: C DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Analytical

25. **Refer to Table 3-2.** Aruba should export
- coolers and import radios.
 - radios and import coolers.
 - both goods and import neither good.
 - neither good and import both goods.

ANS: B DIF: 2 REF: 3-3
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Exports | Imports MSC: Applicative

26. **Refer to Table 3-2.** Iceland should export
- coolers and import radios.
 - radios and import coolers.
 - both goods and import neither good.
 - neither good and import both goods.

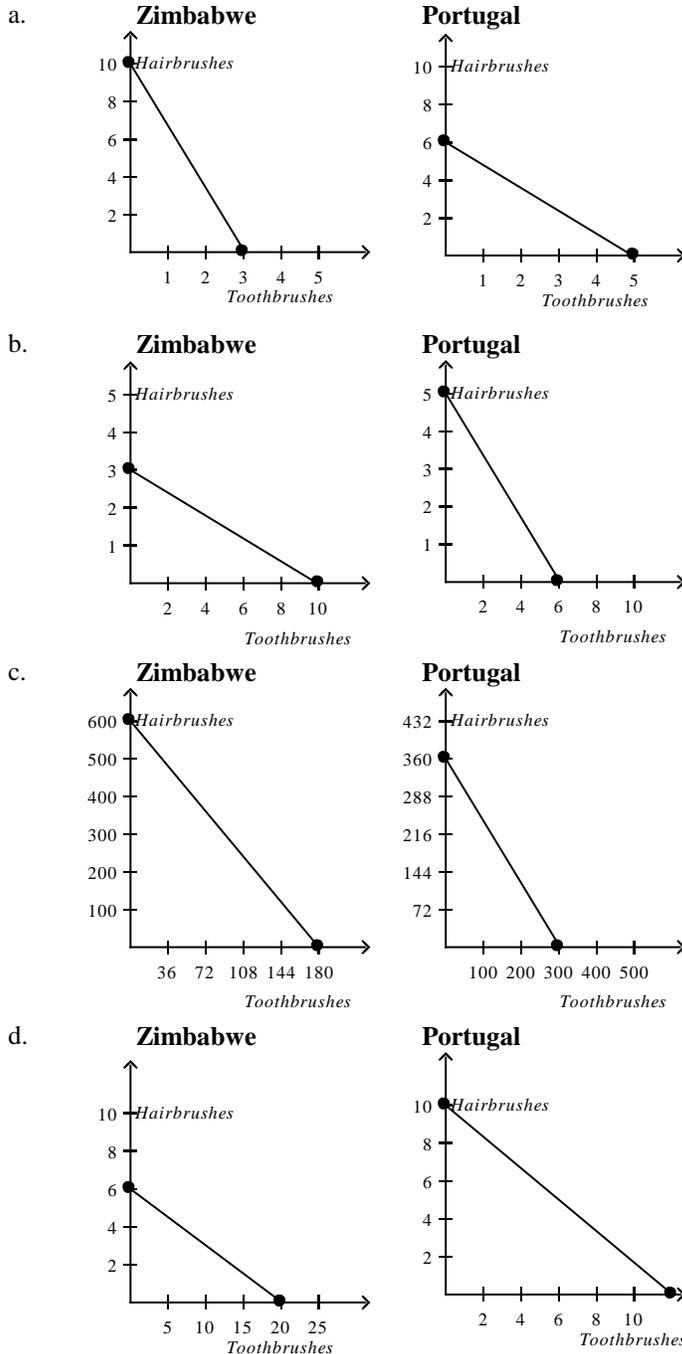
ANS: A DIF: 2 REF: 3-3
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Exports | Imports MSC: Applicative

Table 3-3

Assume that Zimbabwe and Portugal can switch between producing toothbrushes and producing hairbrushes at a constant rate.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

27. Refer to Table 3-3. Which of the following represents Zimbabwe’s and Portugal’s production possibilities frontiers when each country has 60 minutes of machine time available?



ANS: D

DIF: 2

REF: 3-1

NAT: Analytic LOC: Understanding and applying economic models
TOP: Production possibilities frontier MSC: Applicative

28. **Refer to Table 3-3.** Assume that Zimbabwe and Portugal each has 180 machine minutes available. If each country divides its time equally between the production of toothbrushes and hairbrushes, then total production is
- 24 toothbrushes and 12 hairbrushes.
 - 48 toothbrushes and 24 hairbrushes.
 - 96 toothbrushes and 48 hairbrushes.
 - 720 toothbrushes and 1440 hairbrushes.

ANS: B DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Applicative

29. **Refer to Table 3-3.** Which of the following combinations of toothbrushes and hairbrushes could Portugal produce in 30 minutes?
- 1 toothbrush and 4 hairbrushes
 - 4 toothbrushes and 2 hairbrushes
 - 5 toothbrushes and 6 hairbrushes
 - 6 toothbrushes and 5 hairbrushes

ANS: A DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

30. **Refer to Table 3-3.** Which of the following combinations of toothbrushes and hairbrushes could Zimbabwe *not* produce in 120 minutes?
- 5 toothbrushes and 11 hairbrushes
 - 10 toothbrushes and 9 hairbrushes
 - 20 toothbrushes and 6 hairbrushes
 - 30 toothbrushes and 3 hairbrushes

ANS: A DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

31. **Refer to Table 3-3.** Zimbabwe's opportunity cost of one hairbrush is
- $3/10$ toothbrush and Portugal's opportunity cost of one hairbrush is $5/6$ toothbrush.
 - $3/10$ toothbrush and Portugal's opportunity cost of one hairbrush is $6/5$ toothbrushes.
 - $10/3$ toothbrushes and Portugal's opportunity cost of one hairbrush is $5/6$ toothbrush.
 - $10/3$ toothbrushes and Portugal's opportunity cost of one hairbrush is $6/5$ toothbrushes.

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

32. **Refer to Table 3-3.** Suppose Zimbabwe decides to increase its production of toothbrushes by 10. What is the opportunity cost of this decision?
- 0.3 hairbrush
 - 3 hairbrushes
 - 30 hairbrushes
 - 100 hairbrushes

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

33. **Refer to Table 3-3.** Zimbabwe has an absolute advantage in the production of
- toothbrushes and a comparative advantage in the production of toothbrushes.
 - toothbrushes and a comparative advantage in the production of hairbrushes.
 - hairbrushes and a comparative advantage in the production of toothbrushes.
 - hairbrushes and a comparative advantage in the production of hairbrushes.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

34. **Refer to Table 3-3.** Portugal has an absolute advantage in the production of
- toothbrushes and a comparative advantage in the production of toothbrushes.
 - toothbrushes and a comparative advantage in the production of hairbrushes.
 - hairbrushes and a comparative advantage in the production of toothbrushes.
 - hairbrushes and a comparative advantage in the production of hairbrushes.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

35. **Refer to Table 3-3.** Assume that Zimbabwe and Portugal each has 60 machine minutes available. Originally, each country divided its time equally between the production of toothbrushes and hairbrushes. Now, each country spends all its time producing the good in which it has a comparative advantage. As a result, the total output increased by
- 4 toothbrushes and 2 hairbrushes.
 - 10 toothbrushes and 5 hairbrushes.
 - 16 toothbrushes and 8 hairbrushes.
 - 20 toothbrushes and 10 hairbrushes.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

36. **Refer to Table 3-3.** Zimbabwe and Portugal would *not* be able to gain from trade if Zimbabwe's opportunity cost of one toothbrush changed to
- 0 coolers.
 - 5/6 cooler.
 - 6/5 coolers.
 - Zimbabwe and Portugal can always gain from trade regardless of their opportunity costs.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

Table 3-4

Assume that the farmer and the rancher can switch between producing meat and producing potatoes at a constant rate.

	Labor Hours Needed to Make 1 Pound of		Pounds Produced in 40 Hours	
	Meat	Potatoes	Meat	Potatoes
Farmer	10	2	4	20
Rancher	4	8	10	5

37. **Refer to Table 3-4.** Assume that the farmer and the rancher each has 40 labor hours available. If each person divides his time equally between the production of meat and potatoes, then total production is
- 5 pounds of meat and 10 pounds of potatoes.
 - 7 pounds of meat and 12.5 pounds of potatoes.
 - 10 pounds of meat and 20 pounds of potatoes.
 - 14 pounds of meat and 25 pounds of potatoes.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

38. **Refer to Table 3-4.** Which of the following combinations of meat and potatoes could the farmer produce in 40 hours?
- 1 pound of meat and 15 pounds of potatoes.
 - 2 pounds of meat and 11 pounds of potatoes.
 - 3 pounds of meat and 6 pounds of potatoes.
 - 4 pounds of meat and 20 pounds of potatoes.

ANS: A DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

39. **Refer to Table 3-4.** Which of the following combinations of meat and potatoes could the rancher *not* produce in 40 hours?
- 2.5 pounds of meat and 3.75 pounds of potatoes.
 - 5 pounds of meat and 2.5 pounds of potatoes.
 - 7.5 pounds of meat and 1.25 pounds of potatoes.
 - 10 pounds of meat and 0.5 pound of potatoes.

ANS: D DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

40. **Refer to Table 3-4.** The opportunity cost of 1 pound of meat for the farmer is
- 1/5 pound of potatoes.
 - 1/5 hour of labor.
 - 5 pounds of potatoes.
 - 10 hours of labor.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

41. **Refer to Table 3-4.** The opportunity cost of 1 pound of meat for the rancher is
- 1/2 pound of potatoes.
 - 2 hours of labor.
 - 2 pounds of potatoes.
 - 4 hours of labor.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

42. **Refer to Table 3-4.** The opportunity cost of 1 pound of potatoes for the farmer is
- 1/5 pound of meat.
 - 2 hours of labor.
 - 5 pounds of meat.
 - 5 hours of labor.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

43. **Refer to Table 3-4.** The opportunity cost of 1 pound of potatoes for the rancher is
- 1/2 pound of meat.
 - 1/2 hour of labor.
 - 2 pounds of meat.
 - 8 hours of labor.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

44. **Refer to Table 3-4.** The farmer has an absolute advantage in the production of
- meat.
 - potatoes.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

45. **Refer to Table 3-4.** The rancher has an absolute advantage in the production of
- meat.
 - potatoes.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

46. **Refer to Table 3-4.** The farmer has a comparative advantage in the production of
- meat.
 - potatoes.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

47. **Refer to Table 3-4.** The rancher has a comparative advantage in the production of
- meat.
 - potatoes.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

48. **Refer to Table 3-4.** The farmer should specialize in the production of
- meat and the rancher should specialize in the production of potatoes.
 - potatoes and the rancher should specialize in the production of meat.
 - both goods and the rancher should specialize in the production of neither good.
 - neither good and the rancher should specialize in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

49. **Refer to Table 3-4.** Assume that the farmer and the rancher each has 40 labor hours available. If each person spends all his time producing the good in which he has a comparative advantage, then total production is

- 4 pounds of meat and 5 pounds of potatoes.
- 10 pounds of meat and 20 pounds of potatoes.
- 14 pounds of meat and 25 pounds of potatoes.
- 24 pounds of meat and 15 pounds of potatoes.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

50. **Refer to Table 3-4.** Assume that the farmer and the rancher each has 40 labor hours available. If each person spends all his time producing the good in which he has a comparative advantage and trade takes place at a price of 2 pounds of meat for 6 pounds of potatoes, then
- the farmer and the rancher will both gain from this trade.
 - the farmer will gain from this trade, but the rancher will not.
 - the rancher will gain from this trade, but the farmer will not.
 - neither the farmer nor the rancher will gain from this trade.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

51. **Refer to Table 3-4.** Without trade, the farmer produced and consumed 3 pounds of meat and 5 pounds of potatoes and the rancher produced and consumed 4 pounds of meat and 3 pounds of potatoes. Then, each person agreed to specialize in the production of the good in which they have a comparative advantage and trade 4 pounds of meat for 8 pounds of potatoes. As a result, the farmer gained
- 1 pound of meat and 3 pounds of potatoes and the rancher gained 0 pounds of meat and 5 pounds of potatoes.
 - 1 pound of meat and 7 pounds of potatoes and the rancher gained 2 pounds of meat and 5 pounds of potatoes.
 - 4 pounds of meat and 8 pounds of potatoes and the rancher gained 4 pounds of meat and 8 pounds of potatoes.
 - 4 pounds of meat and 12 pounds of potatoes and the rancher gained 6 pounds of meat and 8 pounds of potatoes.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

Table 3-5

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

	Labor Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

52. **Refer to Table 3-5.** Assume that England and Spain each has 40 labor hours available. If each country divides its time equally between the production of cheese and bread, then total production is
- 20 units of cheese and 5 units of bread.
 - 25 units of cheese and 7.5 units of bread.
 - 40 units of cheese and 10 units of bread.
 - 50 units of cheese and 15 units of bread.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

53. **Refer to Table 3-5.** Which of the following combinations of cheese and bread could Spain produce in 40 hours?
- 2.25 units of cheese and 4 units of bread.
 - 5.5 units of cheese and 3 units of bread.
 - 7 units of cheese and 1.5 units of bread.
 - 10 units of cheese and 5 units of bread.

ANS: C DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

54. **Refer to Table 3-5.** Which of the following combinations of cheese and bread could England *not* produce in 40 hours?
- 5 units of cheese and 9 units of bread.
 - 10 units of cheese and 7.5 units of bread.
 - 20 units of cheese and 5 units of bread.
 - 30 units of cheese and 2.5 units of bread.

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

55. **Refer to Table 3-5.** We could use the information in the table to draw a production possibilities frontier for England and a second production possibilities frontier for Spain. If we were to do this, measuring cheese along the horizontal axis, then
- the slope of England's production possibilities frontier would be -4 and the slope of Spain's production possibilities frontier would be -2.
 - the slope of England's production possibilities frontier would be -0.25 and the slope of Spain's production possibilities frontier would be -0.5.
 - the slope of England's production possibilities frontier would be 0.25 and the slope of Spain's production possibilities frontier would be 0.5.
 - the slope of England's production possibilities frontier would be 4 and the slope of Spain's production possibilities frontier would be 2.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

56. **Refer to Table 3-5.** We could use the information in the table to draw a production possibilities frontier for England and a second production possibilities frontier for Spain. If we were to do this, measuring bread along the horizontal axis, then
- the slope of England's production possibilities frontier would be -4 and the slope of Spain's production possibilities frontier would be -2.
 - the slope of England's production possibilities frontier would be -0.25 and the slope of Spain's production possibilities frontier would be -0.5.
 - the slope of England's production possibilities frontier would be 0.25 and the slope of Spain's production possibilities frontier would be 0.5.
 - the slope of England's production possibilities frontier would be 4 and the slope of Spain's production possibilities frontier would be 2.

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

57. **Refer to Table 3-5.** The opportunity cost of 1 unit of cheese for England is
- 1/4 unit of bread.
 - 1 hour of labor.
 - 4 units of bread.
 - 4 hours of labor.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

58. **Refer to Table 3-5.** The opportunity cost of 1 unit of cheese for Spain is
- 1/2 unit of bread.
 - 2 hours of labor.
 - 2 units of bread.
 - 4 hours of labor.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

59. **Refer to Table 3-5.** The opportunity cost of 1 unit of bread for England is
- 1/4 unit of cheese.
 - 1/4 hour of labor.
 - 4 units of cheese.
 - 4 hours of labor.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

60. **Refer to Table 3-5.** The opportunity cost of 1 unit of bread for Spain is
- 1/2 unit of cheese.
 - 1/2 hour of labor.
 - 2 units of cheese.
 - 8 hours of labor.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

61. **Refer to Table 3-5.** England has an absolute advantage in the production of
- cheese and Spain has an absolute advantage in the production of bread.
 - bread and Spain has an absolute advantage in the production of cheese.
 - both goods and Spain has an absolute advantage in the production of neither good.
 - neither good and Spain has an absolute advantage in the production of both goods.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

62. **Refer to Table 3-5.** England has a comparative advantage in the production of
- cheese and Spain has a comparative advantage in the production of bread.
 - bread and Spain has a comparative advantage in the production of cheese.
 - both goods and Spain has a comparative advantage in the production of neither good.
 - neither good and Spain has a comparative advantage in the production of both goods.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

63. **Refer to Table 3-5.** England should specialize in the production of
- cheese and Spain should specialize in the production of bread.
 - bread and Spain should specialize in the production of cheese.
 - both goods and Spain should specialize in the production of neither good.
 - neither good and Spain should specialize in the production of both goods.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

64. **Refer to Table 3-5.** Assume that England and Spain each has 40 labor hours available. Originally, each country divided its time equally between the production of cheese and bread. Now, each country spends all its time producing the good in which it has a comparative advantage. As a result, the total output of cheese increased by
- 15.
 - 20.
 - 25.
 - 40.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

65. **Refer to Table 3-5.** At which of the following prices would both England and Spain gain from trade with each other?
- 16 units of bread for 16 units of cheese
 - 16 units of bread for 24 units of cheese
 - 16 units of bread for 48 units of cheese
 - England and Spain could not both gain from trade with each other at any price.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

66. **Refer to Table 3-5.** If England and Spain each spends all its time producing the good in which it has a comparative advantage and the countries agree to trade 2 units of bread for 6 units of cheese, then England will consume
- 34 units of cheese and 2 units of bread and Spain will consume 6 units of cheese and 3 units of bread.
 - 34 units of cheese and 2 units of bread and Spain will consume 16 units of cheese and 3 units of bread.
 - 34 units of cheese and 12 units of bread and Spain will consume 6 units of cheese and 3 units of bread.
 - 34 units of cheese and 12 units of bread and Spain will consume 16 units of cheese and 3 units of bread.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Analytical

67. **Refer to Table 3-5.** Without trade, England produced and consumed 32 units of cheese and 2 units of bread and Spain produced and consumed 6 units of cheese and 2 units of bread. Then, each country agreed to specialize in the production of the good in which it has a comparative advantage and trade 7 units of cheese for 2.5 units of bread. As a result, England gained
- 0 units of cheese and 0.5 unit of bread and Spain gained 1 unit of cheese and 0.5 unit of bread.
 - 1 unit of cheese and 0.5 unit of bread and Spain gained 1 unit of cheese and 0.5 unit of bread.
 - 7 units of cheese and 2.5 units of bread and Spain gained 7 units of cheese and 2.5 units of bread.
 - 33 units of cheese and 2.5 units of bread and Spain gained 7 units of cheese and 2.5 units of bread.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

68. **Refer to Table 3-5.** England should export
- cheese and import bread.
 - bread and import cheese.
 - both goods and import neither good.
 - neither good and import both goods.

ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Exports | Imports MSC: Applicative

69. **Refer to Table 3-5.** Spain should export
- cheese and import bread.
 - bread and import cheese.
 - both goods and import neither good.
 - neither good and import both goods.

ANS: B DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Exports | Imports MSC: Applicative

Table 3-6

Assume that Hilda and Carlos can switch between producing quilts and producing dresses at a constant rate.

	Hours Needed To Make 1		Amount Produced in 90 Hours	
	Quilt	Dress	Quilts	Dresses
Hilda	30	10	3	9
Carlos	90	45	1	2

70. **Refer to Table 3-6.** Assume that Hilda and Carlos each has 90 hours available. If each person divides their time equally between the production of quilts and dresses, then total production is
- 1 quilt and 9 dresses.
 - 2 quilts and 5.5 dresses.
 - 3 quilts and 2 dresses.
 - 4 quilts and 11 dresses.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

71. **Refer to Table 3-6.** Which of the following combinations of quilts and dresses could Hilda produce in 90 hours?
- 1.5 quilts and 5 dresses.
 - 2 quilts and 3 dresses.
 - 2.5 quilts and 2 dresses.
 - 3 quilts and 1 dress.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

72. **Refer to Table 3-6.** Which of the following combinations of quilts and dresses could Carlos *not* produce in 90 hours?
- 0 quilts and 2 dresses.
 - 0.5 quilt and 1.5 dresses.
 - 0.75 quilt and 0.5 dress.
 - 1 quilt and 0 dresses.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

73. **Refer to Table 3-6.** We could use the information in the table to draw a production possibilities frontier for Hilda and a second production possibilities frontier for Carlos. If we were to do this, measuring quilts along the horizontal axis, then
- the slope of Hilda's production possibilities frontier would be -3 and the slope of Carlos' production possibilities frontier would be -2.
 - the slope of Hilda's production possibilities frontier would be -0.33 and the slope of Carlos' production possibilities frontier would be -0.5.
 - the slope of Hilda's production possibilities frontier would be 0.33 and the slope of Carlos' production possibilities frontier would be 0.5.
 - the slope of Hilda's production possibilities frontier would be 3 and the slope of Carlos' production possibilities frontier would be 2.

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

74. **Refer to Table 3-6.** We could use the information in the table to draw a production possibilities frontier for Hilda and a second production possibilities frontier for Carlos. If we were to do this, measuring dresses along the horizontal axis, then
- the slope of Hilda's production possibilities frontier would be -3 and the slope of Carlos' production possibilities frontier would be -2.
 - the slope of Hilda's production possibilities frontier would be -0.33 and the slope of Carlos' production possibilities frontier would be -0.5.
 - the slope of Hilda's production possibilities frontier would be 0.33 and the slope of Carlos' production possibilities frontier would be 0.5.
 - the slope of Hilda's production possibilities frontier would be 3 and the slope of Carlos' production possibilities frontier would be 2.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

75. **Refer to Table 3-6.** The opportunity cost of 1 quilt for Hilda is
- 1/3 dress.
 - 1/3 hour of labor.
 - 3 dresses.
 - 30 hours of labor.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

76. **Refer to Table 3-6.** The opportunity cost of 1 quilt for Carlos is
- 1/2 dress.
 - 1/2 hour of labor.
 - 2 dresses.
 - 90 hours of labor.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

77. **Refer to Table 3-6.** The opportunity cost of 1 dress for Hilda is
- 1/3 quilt.
 - 3 hours of labor.
 - 3 quilts.
 - 10 hours of labor.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

78. **Refer to Table 3-6.** The opportunity cost of 1 dress for Carlos is
- 1/2 quilt.
 - 2 hours of labor.
 - 2 quilts.
 - 45 hours of labor.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

79. **Refer to Table 3-6.** Hilda has an absolute advantage in the production of
- both goods and a comparative advantage in the production of quilts.
 - both goods and a comparative advantage in the production of dresses.
 - neither good and a comparative advantage in the production of quilts.
 - neither good and a comparative advantage in the production of dresses.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

80. **Refer to Table 3-6.** Carlos has an absolute advantage in the production of
- both goods and a comparative advantage in the production of quilts.
 - both goods and a comparative advantage in the production of dresses.
 - neither good and a comparative advantage in the production of quilts.
 - neither good and a comparative advantage in the production of dresses.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

81. **Refer to Table 3-6.** Hilda should specialize in the production of
- quilts and Carlos should specialize in the production of dresses.
 - dresses and Carlos should specialize in the production of quilts.
 - both goods and Carlos should specialize in the production of neither good.
 - neither good and Carlos should specialize in the production of both goods.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

82. **Refer to Table 3-6.** Assume that Hilda and Carlos each has 90 hours available. Originally, each person divided their time equally between the production of quilts and dresses. Now, each person spends all their time producing the good in which they have a comparative advantage. As a result, the total output of dresses increased by
- 3.5.
 - 4.5.
 - 5.5.
 - 9.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

83. **Refer to Table 3-6.** At which of the following prices would both Hilda and Carlos gain from trade with each other?
- 10 quilts for 25 dresses
 - 20 quilts for 70 dresses
 - 30 quilts for 120 dresses
 - Hilda and Carlos could not both gain from trade with each other at any price.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

Table 3-7

Assume that Japan and Korea can switch between producing cars and producing airplanes at a constant rate.

	Hours Needed to Make 1		Quantity Produced in 2400 Hours	
	Car	Airplane	Cars	Airplanes
Japan	30	150	80	16
Korea	50	150	48	16

84. **Refer to Table 3-7.** Assume that Japan and Korea each has 2400 hours available. If each country divides its time equally between the production of cars and airplanes, then total production is
- 40 cars and 8 airplanes.
 - 64 cars and 16 airplanes.
 - 80 cars and 16 airplanes.
 - 128 cars and 32 airplanes.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

85. **Refer to Table 3-7.** We could use the information in the table to draw a production possibilities frontier for Japan and a second production possibilities frontier for Korea. If we were to do this, measuring cars along the horizontal axis, then
- the slope of Japan's production possibilities frontier would be -5 and the slope of Korea's production possibilities frontier would be -3.
 - the slope of Japan's production possibilities frontier would be -0.2 and the slope of Korea's production possibilities frontier would be -0.33.
 - the slope of Japan's production possibilities frontier would be 0.2 and the slope of Korea's production possibilities frontier would be 0.33.
 - the slope of Japan's production possibilities frontier would be 5 and the slope of Korea's production possibilities frontier would be 3.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

86. **Refer to Table 3-7.** We could use the information in the table to draw a production possibilities frontier for Japan and a second production possibilities frontier for Korea. If we were to do this, measuring airplanes along the horizontal axis, then
- the slope of Japan's production possibilities frontier would be -5 and the slope of Korea's production possibilities frontier would be -3.
 - the slope of Japan's production possibilities frontier would be -0.2 and the slope of Korea's production possibilities frontier would be -0.33.
 - the slope of Japan's production possibilities frontier would be 0.2 and the slope of Korea's production possibilities frontier would be 0.33.
 - the slope of Japan's production possibilities frontier would be 5 and the slope of Korea's production possibilities frontier would be 3.

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

87. **Refer to Table 3-7.** Japan's opportunity cost of one airplane is
- 1/5 car and Korea's opportunity cost of one airplane is 1/3 car.
 - 1/5 car and Korea's opportunity cost of one airplane is 3 cars.
 - 5 cars and Korea's opportunity cost of one airplane is 1/3 car.
 - 5 cars and Korea's opportunity cost of one airplane is 3 cars.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

88. **Refer to Table 3-7.** Suppose Japan decides to increase its production of cars by 45. What is the opportunity cost of this decision?
- 9 airplanes
 - 15 airplanes
 - 135 airplanes
 - 225 airplanes

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

89. **Refer to Table 3-7.** Japan has an absolute advantage in the production of
- cars and a comparative advantage in the production of cars.
 - cars and a comparative advantage in the production of airplanes.
 - neither good and a comparative advantage in the production of cars.
 - neither good and a comparative advantage in the production of airplanes.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

90. **Refer to Table 3-7.** Korea has an absolute advantage in the production of
- cars and a comparative advantage in the production of cars.
 - cars and a comparative advantage in the production of airplanes.
 - neither good and a comparative advantage in the production of cars.
 - neither good and a comparative advantage in the production of airplanes.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

91. **Refer to Table 3-7.** Assume that Japan and Korea each has 2400 hours available. Originally, each country divided its time equally between the production of cars and airplanes. Now, each country spends all its time producing the good in which it has a comparative advantage. As a result, the total output of cars increased by
- 16.
 - 40.
 - 64.
 - 80.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

92. **Refer to Table 3-7.** Japan and Korea would *not* be able to gain from trade if Korea's opportunity cost of one car changed to
- 1/5 airplane.
 - 1/3 airplane.
 - 3 airplanes.
 - 5 airplanes.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

93. **Refer to Table 3-7.** Assume that Japan and Korea each has 2400 hours available. If each country spends all its time producing the good in which it has a comparative advantage and trade takes place at a price of 12 cars for 6 airplanes, then
- Japan and Korea will both gain from this trade.
 - Japan will gain from this trade, but Korea will not.
 - Korea will gain from this trade, but Japan will not.
 - neither Japan nor Korea will gain from this trade.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

94. **Refer to Table 3-7.** Without trade, Japan produced and consumed 50 cars and 6 airplanes and Korea produced and consumed 27 cars and 7 airplanes. Then, each country agreed to specialize in the production of the good in which it has a comparative advantage and trade 28 cars for 8 airplanes. As a result, Japan gained
- 0 cars and 2 airplanes and Korea gained 1 car and 1 airplane.
 - 2 cars and 2 airplanes and Korea gained 1 car and 1 airplane.
 - 28 cars and 8 airplanes and Korea gained 28 cars and 8 airplanes.
 - 52 cars and 8 airplanes and Korea gained 28 cars and 8 airplanes.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

95. **Refer to Table 3-7.** Japan should specialize in the production of
- cars and import airplanes.
 - airplanes and import cars.
 - both goods and import neither good.
 - neither good and import both goods.

ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Imports MSC: Applicative

96. **Refer to Table 3-7.** Korea should specialize in the production of
- cars and import airplanes.
 - airplanes and import cars.
 - both goods and import neither good.
 - neither good and import both goods.

ANS: B DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Imports MSC: Applicative

Table 3-8

Assume that Kito and Penda can switch between producing baskets and producing birdhouses at a constant rate.

	Labor Hours Needed to Make 1		Quantity Produced in 24 Hours	
	Basket	Birdhouse	Baskets	Birdhouses
Kito	8	2	3	12
Penda	1.5	2	16	12

97. **Refer to Table 3-8.** Assume that Kito and Penda each has 24 labor hours available. If each person divides their time equally between the production of baskets and birdhouses, then total production is
- 4.75 baskets and 2 birdhouses.
 - 9.5 baskets and 12 birdhouses.
 - 16 baskets and 12 birdhouses.
 - 19 baskets and 24 birdhouses.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

98. **Refer to Table 3-8.** Which of the following points would *not* be on Kito's production possibilities frontier, based on a 24-hour production period?
- (1 basket, 8 birdhouses)
 - (1.5 baskets, 6 birdhouses)
 - (2 baskets, 4 birdhouses)
 - (2.5 baskets, 3 birdhouses)

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

99. **Refer to Table 3-8.** Which of the following points would be on Penda's production possibilities frontier, based on a 24-hour production period?
- (4 baskets, 10 birdhouses)
 - (8 baskets, 6 birdhouses)
 - (12 baskets, 2 birdhouses)
 - More than one of the above would be on Penda's production possibilities frontier.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

100. **Refer to Table 3-8.** The opportunity cost of 1 basket for Kito is

- 1/4 birdhouse.
- 2/3 birdhouse.
- 3/2 birdhouses.
- 4 birdhouses.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

101. **Refer to Table 3-8.** The opportunity cost of 1 basket for Penda is

- 1/8 birdhouse.
- 3/4 birdhouse.
- 4/3 birdhouses.
- 8 birdhouses.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

102. **Refer to Table 3-8.** The opportunity cost of 1 birdhouse for Kito is

- 1/4 basket.
- 2/3 basket.
- 3/2 baskets.
- 4 baskets.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

103. **Refer to Table 3-8.** The opportunity cost of 1 birdhouse for Penda is

- 1/8 basket.
- 3/4 basket.
- 4/3 baskets.
- 8 baskets.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

104. **Refer to Table 3-8.** Kito has an absolute advantage in the production of

- baskets and a comparative advantage in the production of baskets.
- baskets and a comparative advantage in the production of birdhouses.
- neither good and a comparative advantage in the production of baskets.
- neither good and a comparative advantage in the production of birdhouses.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

105. **Refer to Table 3-8.** Penda has an absolute advantage in the production of

- baskets and a comparative advantage in the production of baskets.
- baskets and a comparative advantage in the production of birdhouses.
- neither good and a comparative advantage in the production of baskets.
- neither good and a comparative advantage in the production of birdhouses.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

106. **Refer to Table 3-8.** Assume that Kito and Penda each has 24 labor hours available. Originally, each person divided their time equally between the production of baskets and birdhouses. Now, each person spends all their time producing the good in which they have a comparative advantage. As a result, the total output of baskets increased by
- 6.5.
 - 8.
 - 9.5.
 - 16.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

107. **Refer to Table 3-8.** At which of the following prices would both Kito and Penda gain from trade with each other?
- 30 baskets for 15 birdhouses
 - 30 baskets for 18 birdhouses
 - 30 baskets for 24 birdhouses
 - Kito and Penda could not both gain from trade with each other at any price.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

Table 3-9

Barb and Jim run a business that sets up and tests computers. Assume that Barb and Jim can switch between setting up and testing computers at a constant rate. The following table applies.

	Minutes Needed to		Number of Computers Set Up or Tested in a 40-Hour Week	
	Set Up 1 Computer	Test 1 Computer	Computers Set Up	Computers Tested
Barb	48	?	50	40
Jim	30	40	80	60

108. **Refer to Table 3-9.** The number of minutes needed by Barb to test a computer is
- 36.
 - 48.
 - 60.
 - 64.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

109. **Refer to Table 3-9.** Which of the following points would *not* be on Barb's production possibilities frontier, based on a 40-hour week?
- (0 computers set up, 40 computers tested)
 - (8 computers set up, 32 computers tested)
 - (25 computers set up, 20 computers tested)
 - (30 computers set up, 16 computers tested)

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

110. **Refer to Table 3-9.** Which of the following points would *not* be on Jim's production possibilities frontier, based on a 40-hour week?
- (0 computers set up, 60 computers tested)
 - (40 computers set up, 30 computers tested)
 - (60 computers set up, 12 computers tested)
 - (72 computers set up, 6 computers tested)

ANS: C DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

111. **Refer to Table 3-9.** Barb's opportunity cost of setting up one computer is testing
- $4/5$ computer and Jim's opportunity cost of setting up one computer is testing $3/4$ computer.
 - $4/5$ computer and Jim's opportunity cost of setting up one computer is testing $4/3$ computers.
 - $5/4$ computers and Jim's opportunity cost of setting up one computer is testing $3/4$ computer.
 - $5/4$ computers and Jim's opportunity cost of setting up one computer is testing $4/3$ computers.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

112. **Refer to Table 3-9.** Barb's opportunity cost of testing one computer is setting up
- $4/5$ computer and Jim's opportunity cost of testing one computer is setting up $3/4$ computer.
 - $4/5$ computer and Jim's opportunity cost of testing one computer is setting up $4/3$ computers.
 - $5/4$ computers and Jim's opportunity cost of testing one computer is setting up $3/4$ computer.
 - $5/4$ computers and Jim's opportunity cost of testing one computer is setting up $4/3$ computers.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

113. **Refer to Table 3-9.** Barb has an absolute advantage in
- both setting up and testing computers and a comparative advantage in setting up computers.
 - both setting up and testing computers and a comparative advantage in testing computers.
 - neither setting up nor testing computers and a comparative advantage in setting up computers.
 - neither setting up nor testing computers and a comparative advantage in testing computers.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

114. **Refer to Table 3-9.** Jim has an absolute advantage in
- both setting up and testing computers and a comparative advantage in setting up computers.
 - both setting up and testing computers and a comparative advantage in testing computers.
 - neither setting up nor testing computers and a comparative advantage in setting up computers.
 - neither setting up nor testing computers and a comparative advantage in testing computers.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

Table 3-10

Juanita and Shantala run a business that programs and tests cellular phones. Assume that Juanita and Shantala can switch between programming and testing cellular phones at a constant rate. The following table applies.

	Minutes Needed to		Number of Cellular Phones Programmed or Tested in a 40-Hour Week	
	Program 1 Cellular Phone	Test 1 Cellular Phone	Cellular Phones Programmed	Cellular Phones Tested
Juanita	?	2	160	1200
Shantala	10	4	240	600

115. **Refer to Table 3-10.** The number of minutes needed by Juanita to program a cellular phone is
- 4.
 - 5.
 - 7.5.
 - 15.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

116. **Refer to Table 3-10.** Which of the following points would be on Juanita's production possibilities frontier, based on a 40-hour week?
- (120 cellular phones programmed, 295 cellular phones tested)
 - (130 cellular phones programmed, 225 cellular phones tested)
 - (140 cellular phones programmed, 155 cellular phones tested)
 - Both (a) and (b) would be on Juanita's production possibilities frontier.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

117. **Refer to Table 3-10.** Which of the following points would be on Shantala's production possibilities frontier, based on a 40-hour week?
- (120 cellular phones programmed, 250 cellular phones tested)
 - (180 cellular phones programmed, 150 cellular phones tested)
 - (240 cellular phones programmed, 600 cellular phones tested)
 - More than one of the above would be on Shantala's production possibilities frontier.

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Analytical

118. **Refer to Table 3-10.** Juanita has an absolute advantage in
- programming cellular phones and a comparative advantage in programming cellular phones.
 - programming cellular phones and a comparative advantage in testing cellular phones.
 - testing cellular phones and a comparative advantage in programming cellular phones.
 - testing cellular phones and a comparative advantage in testing cellular phones.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

119. **Refer to Table 3-10.** Shantala has an absolute advantage in
- programming cellular phones and a comparative advantage in programming cellular phones.
 - programming cellular phones and a comparative advantage in testing cellular phones.
 - testing cellular phones and a comparative advantage in programming cellular phones.
 - testing cellular phones and a comparative advantage in testing cellular phones.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

Table 3-11

Assume that Falda and Varick can switch between producing wheat and producing cloth at a constant rate.

	Quantity Produced in 1 Hour	
	Bushels of Wheat	Yards of Cloth
Falda	8	12
Varick	6	15

120. **Refer to Table 3-11.** Assume that Falda and Varick each has 1 hour available. If each person divides their time equally between the production of wheat and cloth, then total production is
- 4 bushels of wheat and 7.5 yards of cloth.
 - 7 bushels of wheat and 13.5 yards of cloth.
 - 8 bushels of wheat and 15 yards of cloth.
 - 14 bushels of wheat and 27 yards of cloth.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

121. **Refer to Table 3-11.** Falda's opportunity cost of one bushel of wheat is
- $2/3$ yard of cloth and Varick's opportunity cost of one bushel of wheat is $2/5$ yard of cloth.
 - $2/3$ yard of cloth and Varick's opportunity cost of one bushel of wheat is $5/2$ yards of cloth.
 - $3/2$ yards of cloth and Varick's opportunity cost of one bushel of wheat is $2/5$ yard of cloth.
 - $3/2$ yards of cloth and Varick's opportunity cost of one bushel of wheat is $5/2$ yards of cloth.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

122. **Refer to Table 3-11.** Falda's opportunity cost of one yard of cloth is
- $2/3$ bushel of wheat and Varick's opportunity cost of one yard of cloth is $2/5$ bushel of wheat.
 - $2/3$ bushel of wheat and Varick's opportunity cost of one yard of cloth is $5/2$ bushels of wheat.
 - $3/2$ bushels of wheat and Varick's opportunity cost of one yard of cloth is $2/5$ bushel of wheat.
 - $3/2$ bushels of wheat and Varick's opportunity cost of one yard of cloth is $5/2$ bushels of wheat.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

123. **Refer to Table 3-11.** Falda has an absolute advantage in the production of
- wheat.
 - cloth.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

124. **Refer to Table 3-11.** Varick has an absolute advantage in the production of
- wheat.
 - cloth.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

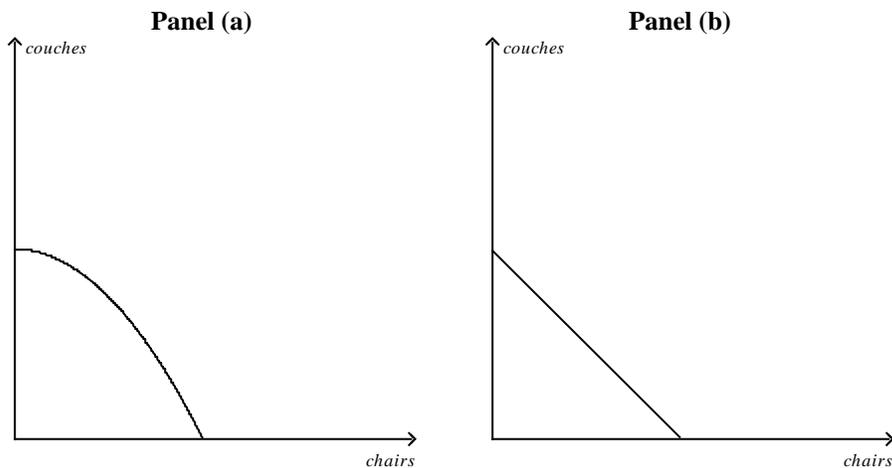
125. **Refer to Table 3-11.** Falda has a comparative advantage in the production of
- wheat.
 - cloth.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

126. **Refer to Table 3-11.** Varick has a comparative advantage in the production of
- wheat.
 - cloth.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

Figure 3-1

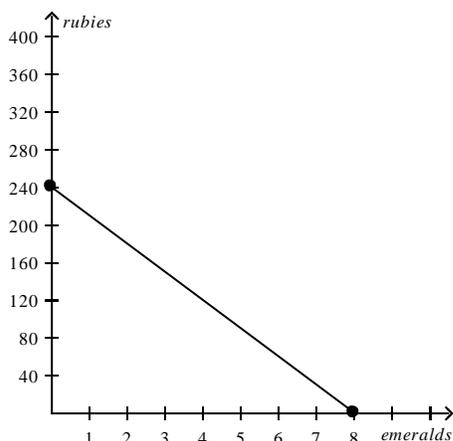


127. **Refer to Figure 3-1.** The rate of tradeoff between producing chairs and producing couches is constant in
- Panel (a).
 - Panel (b).
 - both Panel (a) and Panel (b).
 - neither Panel (a) nor Panel (b).

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Interpretive

128. **Refer to Figure 3-1.** The rate of tradeoff between producing chairs and producing couches depends on how many chairs and couches are being produced in
- Panel (a).
 - Panel (b).
 - both Panel (a) and Panel (b).
 - neither Panel (a) nor Panel (b).

ANS: A DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Interpretive

Figure 3-2**Peru's Production Possibilities Frontier**

129. **Refer to Figure 3-2.** The fact that the line slopes downward reflects the fact that
- for Peru, it is more costly to produce emeralds than it is to produce rubies.
 - Peru will produce more emeralds and fewer rubies as time goes by.
 - Peru faces a tradeoff between producing emeralds and producing rubies.
 - Peru should specialize in producing rubies.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier MSC: Interpretive

130. **Refer to Figure 3-2.** If the production possibilities frontier shown is for 40 hours of production, then how long does it take Peru to make one emerald?
- 1/6 hour
 - 1/5 hour
 - 5 hours
 - 6 hours

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

131. **Refer to Figure 3-2.** If the production possibilities frontier shown is for 40 hours of production, then how long does it take Peru to make one ruby?
- 1/6 hour
 - 1/5 hour
 - 5 hours
 - 6 hours

ANS: A DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

132. **Refer to Figure 3-2.** If the production possibilities frontier shown is for one month of production, then which of the following combinations of emeralds and rubies could Peru produce in a given month?
- 7 emeralds and 40 rubies
 - 5 emeralds and 92 rubies
 - 3 emeralds and 165 rubies
 - 2 emeralds and 180 rubies

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

133. **Refer to Figure 3-2.** If the production possibilities frontier shown is for one month of production, then which of the following combinations of emeralds and rubies could Peru *not* produce in a given month?
- 6 emeralds and 60 rubies
 - 4 emeralds and 120 rubies
 - 3 emeralds and 160 rubies
 - 1 emeralds and 210 rubies

ANS: C DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

134. **Refer to Figure 3-2.** Suppose Peru decides to increase its production of rubies by 30. What is the opportunity cost of this decision?
- 1/8 emerald
 - 1/3 emerald
 - 1 emerald
 - 3 emeralds

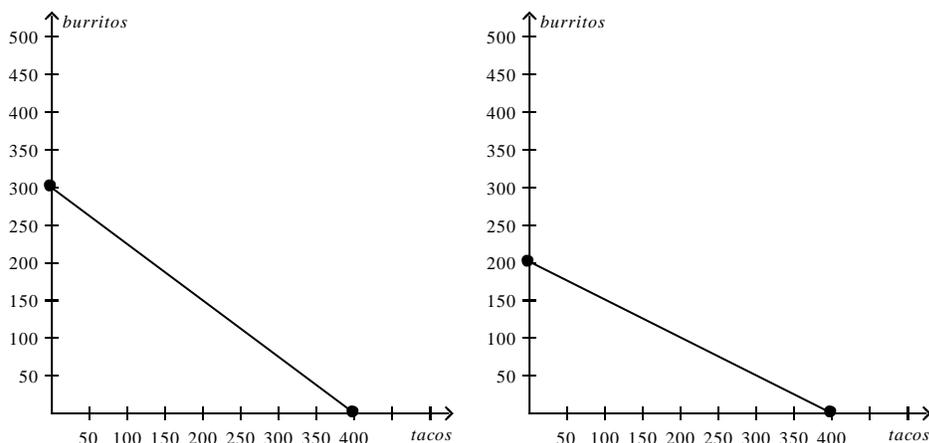
ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

135. **Refer to Figure 3-2.** Suppose Peru decides to increase its production of emeralds by 2. What is the opportunity cost of this decision?
- 30 rubies
 - 40 rubies
 - 60 rubies
 - 120 rubies

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

136. **Refer to Figure 3-2.** Suppose Madagascar is willing to trade 40 rubies to Peru for each emerald that Peru produces and sends to Madagascar. Which of the following combinations of emeralds and rubies could Peru then consume, assuming Peru specializes in emerald production?
- 2 emeralds and 240 rubies
 - 3 emeralds and 220 rubies
 - 4 emeralds and 200 rubies
 - 5 emeralds and 140 rubies

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical

Figure 3-3**Bob's Production Possibilities Frontier Enid's Production Possibilities Frontier**

137. **Refer to Figure 3-3.** If Enid must work 0.25 hour to produce each taco, then her production possibilities frontier is based on how many hours of work?
- 40 hours
 - 100 hours
 - 400 hours
 - 1600 hours

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

138. **Refer to Figure 3-3.** If the production possibilities frontier shown for Bob is for 100 hours of production, then how long does it take Bob to make one burrito?
- 1/4 hour
 - 1/3 hour
 - 3 hours
 - 4 hours

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

139. **Refer to Figure 3-3.** If Bob and Enid both spend all of their time producing tacos, then total production is
- 400 tacos and 0 burritos.
 - 400 tacos and 250 burritos.
 - 800 tacos and 0 burritos.
 - 800 tacos and 500 burritos.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

140. **Refer to Figure 3-3.** If Bob and Enid each divides their time equally between the production of tacos and burritos, then total production is
- 200 tacos and 150 burritos.
 - 400 tacos and 250 burritos.
 - 400 tacos and 300 burritos.
 - 800 tacos and 500 burritos.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

141. **Refer to Figure 3-3.** If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of tacos and burritos could Bob and Enid together produce in a given day?

- a. 400 tacos and 350 burritos
- b. 500 tacos and 250 burritos
- c. 600 tacos and 150 burritos
- d. 700 tacos and 100 burritos

ANS: C DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

142. **Refer to Figure 3-3.** If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of tacos and burritos could Bob and Enid together *not* produce in a given day?

- a. 200 tacos and 400 burritos
- b. 300 tacos and 350 burritos
- c. 400 tacos and 300 burritos
- d. 600 tacos and 250 burritos

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

143. **Refer to Figure 3-3.** Bob's opportunity cost of one burrito is

- a. 3/4 taco and Enid's opportunity cost of one burrito is 1/2 taco.
- b. 3/4 taco and Enid's opportunity cost of one burrito is 2 tacos.
- c. 4/3 tacos and Enid's opportunity cost of one burrito is 1/2 taco.
- d. 4/3 tacos and Enid's opportunity cost of one burrito is 2 tacos.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

144. **Refer to Figure 3-3.** Bob would incur an opportunity cost of 36 burritos if he increased his production of tacos by

- a. 27.
- b. 48.
- c. 108.
- d. 144.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Analytical

145. **Refer to Figure 3-3.** Which of the following is *not* correct?

- a. Bob and Enid could each consume 100 tacos and 100 burritos without trade.
- b. Neither Bob nor Enid could each consume 200 tacos and 200 burritos without trade.
- c. Bob and Enid could each consume 200 tacos and 200 burritos with trade.
- d. Total consumption of burritos could not be 600 either with or without trade.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Consumption MSC: Analytical

146. **Refer to Figure 3-3.** Suppose Bob is willing to trade 6 burritos to Enid for each 10 tacos that Enid produces and sends to Bob. Which of the following combinations of tacos and burritos could Enid then consume, assuming Enid specializes in taco production and Bob specializes in burrito production?
- 100 tacos and 200 burritos
 - 200 tacos and 130 burritos
 - 300 tacos and 60 burritos
 - 340 tacos and 40 burritos

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical

147. **Refer to Figure 3-3.** Bob has an absolute advantage in the production of
- burritos and a comparative advantage in the production of tacos.
 - burritos and a comparative advantage in the production of burritos.
 - neither good and a comparative advantage in the production of tacos.
 - neither good and a comparative advantage in the production of burritos.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

148. **Refer to Figure 3-3.** Enid has an absolute advantage in the production of
- burritos and a comparative advantage in the production of tacos.
 - burritos and a comparative advantage in the production of burritos.
 - neither good and a comparative advantage in the production of tacos.
 - neither good and a comparative advantage in the production of burritos.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

149. **Refer to Figure 3-3.** Bob should specialize in the production of
- tacos and Enid should specialize in the production of burritos.
 - burritos and Enid should specialize in the production of tacos.
 - both goods and Enid should specialize in the production of neither good.
 - neither good and Enid should specialize in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Applicative

150. **Refer to Figure 3-3.** If Bob and Enid switch from each person dividing their time equally between the production of tacos and burritos to each person spending all of their time producing the good in which they have a comparative advantage, then total production of burritos will increase by
- 50.
 - 100.
 - 150.
 - 300.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

151. **Refer to Figure 3-3.** At which of the following prices would both Bob and Enid gain from trade with each other?
- 12 burritos for 21 tacos
 - 12 burritos for 27 tacos
 - 12 burritos for 36 tacos
 - Bob and Enid could not both gain from trade with each other at any price.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

152. **Refer to Figure 3-3.** Bob and Enid would *not* be able to gain from trade if Enid's opportunity cost of one taco changed to
- 1/2 burrito.
 - 3/4 burrito.
 - 4/3 burritos.
 - 2 burritos.

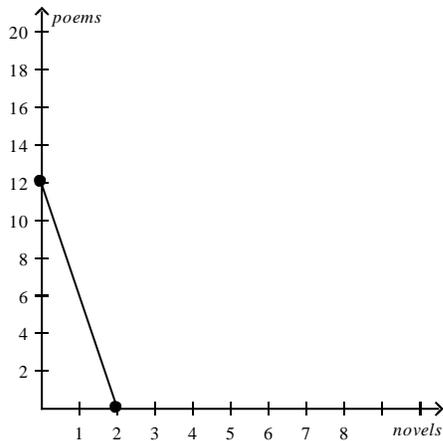
ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

153. **Refer to Figure 3-3.** Without trade, Bob produced and consumed 240 tacos and 120 burritos and Enid produced and consumed 100 tacos and 150 burritos. Then, each person agreed to specialize in the production of the good in which they have a comparative advantage and trade 260 tacos for 156 burritos. As a result, Bob gained
- 20 tacos and 24 burritos and Enid gained 40 tacos and 6 burritos.
 - 20 tacos and 36 burritos and Enid gained 160 tacos and 6 burritos.
 - 260 tacos and 144 burritos and Enid gained 140 tacos and 156 burritos.
 - 260 tacos and 156 burritos and Enid gained 260 tacos and 156 burritos.

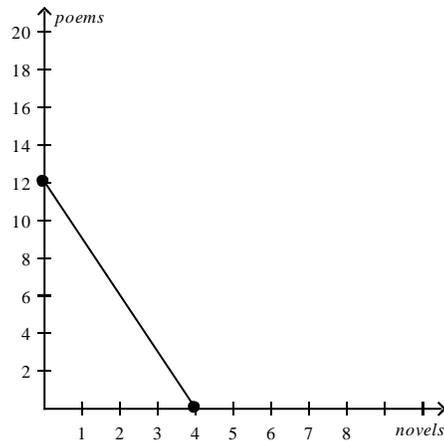
ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

Figure 3-4

Perry's Production Possibilities Frontier



Jordan's Production Possibilities Frontier



154. **Refer to Figure 3-4.** If Jordan must work 3 months to write each novel, then her production possibilities frontier is based on how many months of work?
- 1 month
 - 3 months
 - 4 months
 - 12 months

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

155. **Refer to Figure 3-4.** If the production possibilities frontier shown for Perry is for 6 months of writing, then how long does it take Perry to write one poem?
- 1/3 month
 - 1/2 month
 - 2 months
 - 3 months

ANS: B DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Applicative

156. **Refer to Figure 3-4.** If Perry and Jordan both spend all of their time writing poems, then total production is
- 3 poems.
 - 6 poems.
 - 12 poems.
 - 24 poems.

ANS: D DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Applicative

157. **Refer to Figure 3-4.** If Perry and Jordan each divides their time equally between writing novels and writing poems, then total production is
- 2 novels and 6 poems.
 - 3 novels and 12 poems.
 - 4 novels and 12 poems.
 - 6 novels and 24 poems.

ANS: B DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Applicative

158. **Refer to Figure 3-4.** If the production possibilities frontiers shown are each for one year of writing, then which of the following combinations of novels and poems could Perry and Jordan together write in a given year?
- 1 novel and 22 poems
 - 2 novels and 18 poems
 - 3 novels and 16 poems
 - 5 novels and 8 poems

ANS: B DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

159. **Refer to Figure 3-4.** If the production possibilities frontiers shown are each for one year of writing, then which of the following combinations of novels and poems could Perry and Jordan together *not* write in a given year?
- 1 novel and 21 poems
 - 2 novels and 20 poems
 - 3 novels and 15 poems
 - 5 novels and 6 poems

ANS: B DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

160. **Refer to Figure 3-4.** The opportunity cost of 1 novel for Perry is
- 1/6 poem.
 - 2 poems.
 - 6 poems.
 - 12 poems.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

161. **Refer to Figure 3-4.** The opportunity cost of 1 novel for Jordan is
- 1/3 poem.
 - 3 poems.
 - 4 poems.
 - 12 poems.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

162. **Refer to Figure 3-4.** The opportunity cost of 1 poem for Perry is
- 1/12 novel.
 - 1/6 novel.
 - 2 novels.
 - 6 novels.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

163. **Refer to Figure 3-4.** The opportunity cost of 1 poem for Jordan is
- 1/2 novel.
 - 1/3 novel.
 - 3 novels.
 - 4 novels.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

164. **Refer to Figure 3-4.** Which of the following is *not* correct?
- Perry and Jordan could each consume 2 novels and 6 poems without trade.
 - Jordan could consume 2 novels and 6 poems both with and without trade.
 - Perry and Jordan could each consume 2 novels and 6 poems with trade.
 - Perry and Jordan could each consume 12 poems without trade.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Consumption MSC: Analytical

165. **Refer to Figure 3-4.** Suppose Perry is willing to trade 4 poems to Jordan for each novel that Jordan writes and sends to Perry. Which of the following combinations of novels and poems could Jordan then consume, assuming Jordan specializes in novel production and Perry specializes in poem production?
- 1 novel and 14 poems
 - 2 novels and 8 poems
 - 3 novels and 6 poems
 - 4 novels and 2 poems

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical

166. **Refer to Figure 3-4.** Perry has an absolute advantage in the production of
- novels and Jordan has an absolute advantage in the production of poems.
 - poems and Jordan has an absolute advantage in the production of novels.
 - novels and Jordan has an absolute advantage in the production of neither good.
 - neither good and Jordan has an absolute advantage in the production of novels.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

167. **Refer to Figure 3-4.** Perry has a comparative advantage in the production of
- novels and Jordan has a comparative advantage in the production of poems.
 - poems and Jordan has a comparative advantage in the production of novels.
 - novels and Jordan has a comparative advantage in the production of neither good.
 - neither good and Jordan has a comparative advantage in the production of novels.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

168. **Refer to Figure 3-4.** Perry should specialize in the production of
- novels.
 - poems.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Applicative

169. **Refer to Figure 3-4.** Jordan should specialize in the production of
- novels.
 - poems.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Applicative

170. **Refer to Figure 3-4.** If Perry and Jordan switch from each person dividing their time equally between the production of novels and poems to each person spending all of their time producing the good in which they have a comparative advantage, then total production of novels will increase by
- 1.
 - 2.
 - 3.
 - 4.

ANS: A DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Analytical

171. **Refer to Figure 3-4.** If Perry and Jordan each spends all their time producing the good in which they have a comparative advantage and trade takes place at a price of 1 novel for 7 poems, then
- Perry and Jordan will both gain from this trade.
 - Perry will gain from this trade, but Jordan will not.
 - Jordan will gain from this trade, but Perry will not.
 - neither Perry nor Jordan will gain from this trade.

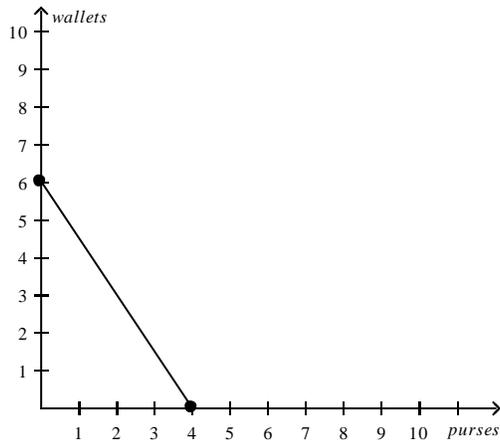
ANS: C DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Gains from trade MSC: Analytical

Figure 3-5

Puneet's Production Possibilities Frontier



Chirag's Production Possibilities Frontier



172. **Refer to Figure 3-5.** If Puneet must work 0.5 hour to make each purse, then his production possibilities frontier is based on how many hours of work?
- 2 hours
 - 5 hours
 - 20 hours
 - 50 hours

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

173. **Refer to Figure 3-5.** If the production possibilities frontier shown for Chirag is for 8 hours of work, then how long does it take Chirag to make one purse?
- 1/2 hour
 - 2 hours
 - 4 hours
 - 8 hours

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

174. **Refer to Figure 3-5.** If Puneet and Chirag both spend all of their time making wallets, then total production is
- 7 wallets.
 - 8 wallets.
 - 14 wallets.
 - 28 wallets.

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

175. **Refer to Figure 3-5.** If Puneet and Chirag each divides his time equally between making purses and making wallets, then total production is
- 4 purses and 8 wallets.
 - 7 purses and 7 wallets.
 - 10 purses and 6 wallets.
 - 14 purses and 14 wallets.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

176. **Refer to Figure 3-5.** Puneet's opportunity cost of one purse is
- 4/5 wallet and Chirag's opportunity cost of one purse is 2/3 wallet.
 - 4/5 wallet and Chirag's opportunity cost of one purse is 3/2 wallets.
 - 5/4 wallets and Chirag's opportunity cost of one purse is 2/3 wallet.
 - 5/4 wallets and Chirag's opportunity cost of one purse is 3/2 wallets.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

177. **Refer to Figure 3-5.** Puneet's opportunity cost of one wallet is
- 4/5 purse and Chirag's opportunity cost of one wallet is 2/3 purse.
 - 4/5 purse and Chirag's opportunity cost of one wallet is 3/2 purses.
 - 5/4 purses and Chirag's opportunity cost of one wallet is 2/3 purse.
 - 5/4 purses and Chirag's opportunity cost of one wallet is 3/2 purses.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

178. **Refer to Figure 3-5.** Puneet has an absolute advantage in the production of
- purses and Chirag has an absolute advantage in the production of wallets.
 - wallets and Chirag has an absolute advantage in the production of purses.
 - both goods and Chirag has an absolute advantage in the production of neither good.
 - neither good and Chirag has an absolute advantage in the production of both goods.

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Absolute advantage MSC: Applicative

179. **Refer to Figure 3-5.** Puneet has a comparative advantage in the production of
- purses and Chirag has a comparative advantage in the production of wallets.
 - wallets and Chirag has a comparative advantage in the production of purses.
 - both goods and Chirag has a comparative advantage in the production of neither good.
 - neither good and Chirag has a comparative advantage in the production of both goods.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

180. **Refer to Figure 3-5.** Puneet should specialize in the production of
- purses.
 - wallets.
 - both goods.
 - neither good.

ANS: A DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Applicative

181. **Refer to Figure 3-5.** Chirag should specialize in the production of
- purses.
 - wallets.
 - both goods.
 - neither good.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Applicative

182. **Refer to Figure 3-5.** If Puneet and Chirag switch from each person dividing his time equally between the production of purses and wallets to each person spending all of his time producing the good in which he has a comparative advantage, then total production of purses will increase by
- 2.
 - 3.
 - 5.
 - 10.

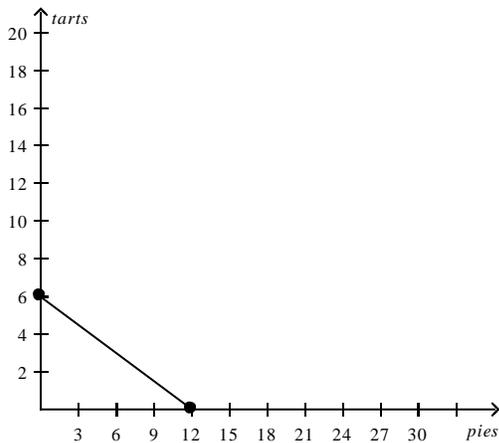
ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

183. **Refer to Figure 3-5.** At which of the following prices would both Puneet and Chirag gain from trade with each other?
- 5 wallets for 1.25 purses
 - 5 wallets for 2.5 purses
 - 5 wallets for 3.75 purses
 - Puneet and Chirag could not both gain from trade with each other at any price.

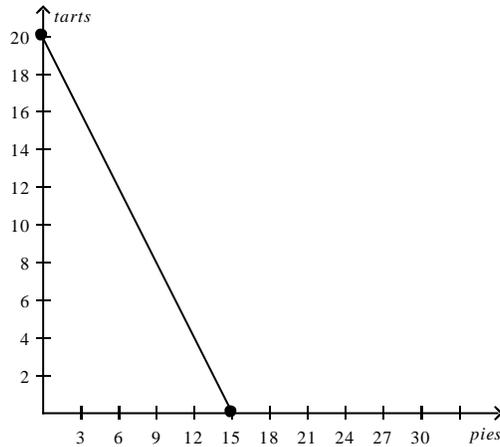
ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

Figure 3-6

Maxine's Production Possibilities Frontier



Daisy's Production Possibilities Frontier



184. **Refer to Figure 3-6.** If Daisy must work 2.5 hours to make each pie, then her production possibilities frontier is based on how many hours of work?
- 6 hours
 - 7.5 hours
 - 37.5 hours
 - 50 hours

ANS: C DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

185. **Refer to Figure 3-6.** If the production possibilities frontier shown for Maxine is for 3 hours of work, then how long does it take Maxine to make one pie?
- 1/4 hour
 - 1/3 hour
 - 3 hours
 - 4 hours

ANS: A DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

186. **Refer to Figure 3-6.** If Maxine and Daisy each divides her time equally between making pies and making tarts, then total production is
- 6 pies and 10 tarts.
 - 7.5 pies and 3 tarts.
 - 7.5 pies and 10 tarts.
 - 13.5 pies and 13 tarts.

ANS: D DIF: 2 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Applicative

187. **Refer to Figure 3-6.** If the production possibilities frontiers shown are each for one day of work, then which of the following combinations of pies and tarts could Maxine and Daisy together make in a given day?
- 6 pies and 24 tarts
 - 8 pies and 22 tarts
 - 14 pies and 18 tarts
 - 18 pies and 14 tarts

ANS: B DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

188. **Refer to Figure 3-6.** If the production possibilities frontiers shown are each for one day of work, then which of the following combinations of pies and tarts could Maxine and Daisy together *not* make in a given day?
- 2 pies and 25 tarts
 - 10 pies and 22 tarts
 - 12 pies and 15 tarts
 - 15 pies and 16 tarts

ANS: B DIF: 3 REF: 3-1
NAT: Analytic LOC: Understanding and applying economic models
TOP: Production MSC: Analytical

189. **Refer to Figure 3-6.** Suppose Maxine decides to increase her production of tarts by 5. What is the opportunity cost of this decision?
- $2/5$ pie
 - 2 pies
 - $5/2$ pies
 - 10 pies

ANS: D DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

190. **Refer to Figure 3-6.** Suppose Daisy decides to increase her production of pies by 6. What is the opportunity cost of this decision?
- $8/3$ tarts
 - 4.5 tarts
 - 8 tarts
 - 10 tarts

ANS: C DIF: 2 REF: 3-2
NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost MSC: Applicative

191. **Refer to Figure 3-6.** Suppose Daisy is willing to trade $\frac{3}{4}$ tart to Maxine for each pie that Maxine makes and sends to Daisy. Which of the following combinations of pies and tarts could Maxine *not* then consume, assuming Maxine specializes in making pies and Daisy specializes in making tarts?
- 4 pies and 6 tarts
 - 6 pies and 5 tarts
 - 8 pies and 3 tarts
 - 10 pies and 1.5 tarts

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical

192. **Refer to Figure 3-6.** Maxine has an absolute advantage in the production of
- both goods and a comparative advantage in the production of pies.
 - both goods and a comparative advantage in the production of tarts.
 - neither good and a comparative advantage in the production of pies.
 - neither good and a comparative advantage in the production of tarts.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

193. **Refer to Figure 3-6.** Daisy has an absolute advantage in the production of
- both goods and a comparative advantage in the production of pies.
 - both goods and a comparative advantage in the production of tarts.
 - neither good and a comparative advantage in the production of pies.
 - neither good and a comparative advantage in the production of tarts.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage | Comparative advantage MSC: Applicative

194. **Refer to Figure 3-6.** If Maxine and Daisy switch from each person dividing her time equally between the production of pies and tarts to each person spending all of her time producing the good in which she has a comparative advantage, then total production of tarts will increase by
- 7.
 - 10.
 - 17.
 - 20.

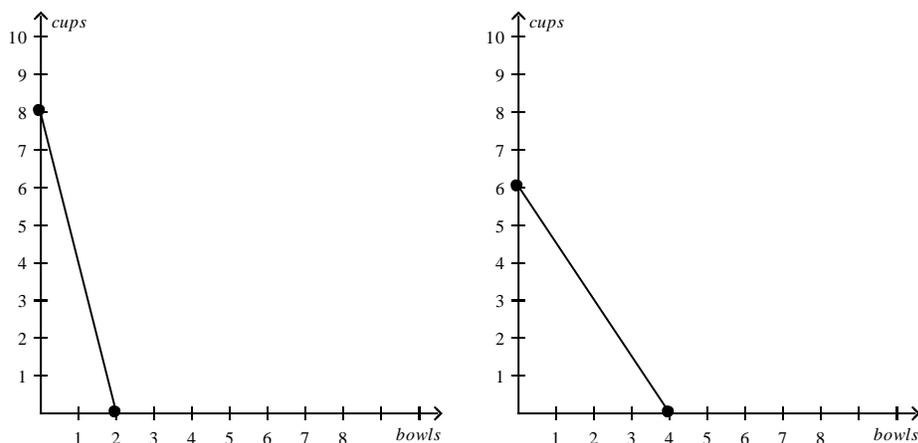
ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

195. **Refer to Figure 3-6.** At which of the following prices would both Maxine and Daisy gain from trade with each other?
- 4 tarts for 2 pies
 - 8 tarts for 12 pies
 - 12 tarts for 28 pies
 - Maxine and Daisy could not both gain from trade with each other at any price.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

Figure 3-7

Bintu's Production Possibilities Frontier Juba's Production Possibilities Frontier



196. **Refer to Figure 3-7.** If Bintu must work 2 hours to make each cup, then her production possibilities frontier is based on how many hours of work?
- 2 hours
 - 4 hours
 - 8 hours
 - 16 hours

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

197. **Refer to Figure 3-7.** If the production possibilities frontier shown for Juba is for 2 hours of work, then how long does it take Juba to make one bowl?
- 1/8 hour
 - 1/2 hour
 - 2 hours
 - 8 hours

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

198. **Refer to Figure 3-7.** If Bintu and Juba both spend all of their time making bowls, then total production is
- 2 bowls.
 - 3 bowls.
 - 4 bowls.
 - 6 bowls.

ANS: D DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

199. **Refer to Figure 3-7.** If Bintu and Juba each divides her time equally between making bowls and making cups, then total production is
- 2 bowls and 6 cups.
 - 3 bowls and 7 cups.
 - 4 bowls and 8 cups.
 - 6 bowls and 14 cups.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

200. **Refer to Figure 3-7.** If the production possibilities frontiers shown are each for 4 hours of work, then which of the following combinations of bowls and cups could Bintu and Juba together make in a given 4-hour production period?
- 1 bowl and 14 cups
 - 2 bowls and 11 cups
 - 3 bowls and 10 cups
 - 5 bowls and 5 cups

ANS: B DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

201. **Refer to Figure 3-7.** If the production possibilities frontiers shown are each for 4 hours of work, then which of the following combinations of bowls and cups could Bintu and Juba together *not* make in a given 4-hour production period?
- 3 bowls and 9.5 cups
 - 4.5 bowls and 6 cups
 - 5 bowls and 4 cups
 - 6 bowls and 1 cups

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

202. **Refer to Figure 3-7.** The opportunity cost of 1 bowl for Bintu is
- 1/4 cup.
 - 1/2 cup.
 - 2 cups.
 - 4 cups.

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

203. **Refer to Figure 3-7.** The opportunity cost of 1 bowl for Juba is
- 1/4 cup.
 - 2/3 cup.
 - 3/2 cups.
 - 4 cups.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

204. **Refer to Figure 3-7.** The opportunity cost of 1 cup for Bintu is
- 1/8 bowl.
 - 1/4 bowl.
 - 4 bowls.
 - 8 bowls.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

205. **Refer to Figure 3-7.** The opportunity cost of 1 cup for Juba is
- 1/6 bowl.
 - 2/3 bowl.
 - 3/2 bowls.
 - 6 bowls.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

206. **Refer to Figure 3-7.** Suppose Juba is willing to trade one bowl to Bintu for every two cups that Bintu makes and sends to Juba. Which of the following combinations of bowls and cups could Bintu then consume, assuming Bintu specializes in making cups and Juba specializes in making bowls?
- 1 bowl and 7 cups
 - 2 bowls and 4 cups
 - 3 bowls and 3 cups
 - 4 bowls and 1 cup

ANS: B DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Trade MSC: Analytical

207. **Refer to Figure 3-7.** Bintu has an absolute advantage in the production of
- bowls and Juba has an absolute advantage in the production of cups.
 - cups and Juba has an absolute advantage in the production of bowls.
 - both goods and Juba has an absolute advantage in the production of neither good.
 - neither good and Juba has an absolute advantage in the production of both goods.

ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Absolute advantage MSC: Applicative

208. **Refer to Figure 3-7.** Bintu has a comparative advantage in the production of
- bowls and Juba has a comparative advantage in the production of cups.
 - cups and Juba has a comparative advantage in the production of bowls.
 - both goods and Juba has a comparative advantage in the production of neither good.
 - neither good and Juba has a comparative advantage in the production of both goods.

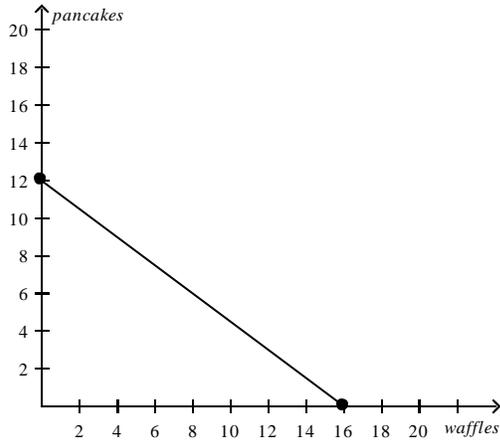
ANS: B DIF: 2 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Comparative advantage MSC: Applicative

209. **Refer to Figure 3-7.** If Bintu and Juba switch from each person dividing her time equally between the production of cups and bowls to each person spending all of her time producing the good in which she has a comparative advantage, then total production will increase by
- 1 bowl and 1 cup.
 - 2 bowls and 4 cups.
 - 3 bowls and 5 cups.
 - 4 bowls and 8 cups.

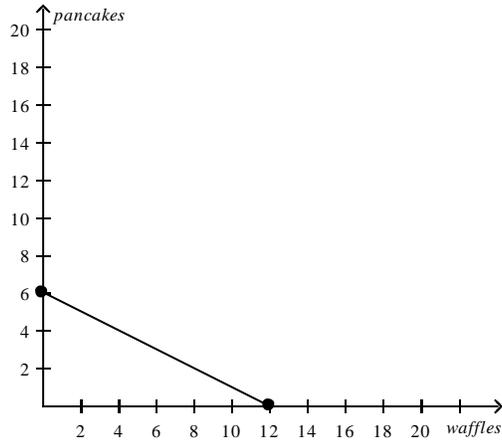
ANS: A DIF: 3 REF: 3-2
NAT: Analytic LOC: Gains from trade, specialization and trade
TOP: Specialization MSC: Analytical

Figure 3-8

Belgium's Production Possibilities Frontier



Latvia's Production Possibilities Frontier



210. **Refer to Figure 3-8.** If Belgium and Latvia each divides its time equally between making waffles and making pancakes, then total production is
- 12 waffles and 12 pancakes.
 - 14 waffles and 9 pancakes.
 - 16 waffles and 6 pancakes.
 - 28 waffles and 18 pancakes.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

211. **Refer to Figure 3-8.** If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of waffles and pancakes could Belgium and Latvia together make in a given day?
- 4 waffles and 16 pancakes
 - 8 waffles and 15 pancakes
 - 16 waffles and 10 pancakes
 - 24 waffles and 4 pancakes

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

212. **Refer to Figure 3-8.** If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of waffles and pancakes could Belgium and Latvia together *not* make in a given day?
- 4 waffles and 17 pancakes
 - 8 waffles and 14 pancakes
 - 16 waffles and 9 pancakes
 - 24 waffles and 3 pancakes

ANS: A DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

213. **Refer to Figure 3-8.** Belgium's opportunity cost of one waffle is
- $\frac{3}{4}$ pancake and Latvia's opportunity cost of one waffle is $\frac{1}{2}$ pancake.
 - $\frac{3}{4}$ pancake and Latvia's opportunity cost of one waffle is 2 pancakes.
 - $\frac{4}{3}$ pancakes and Latvia's opportunity cost of one waffle is $\frac{1}{2}$ pancake.
 - $\frac{4}{3}$ pancakes and Latvia's opportunity cost of one waffle is 2 pancakes.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

214. **Refer to Figure 3-8.** Belgium would incur an opportunity cost of 36 waffles if it increased its production of pancakes by
- 12.
 - 27.
 - 30.
 - 48.

ANS: B DIF: 3 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Analytical

215. **Refer to Figure 3-8.** Belgium has an absolute advantage in the production of
- waffles and Latvia has an absolute advantage in the production of pancakes.
 - pancakes and Latvia has an absolute advantage in the production of waffles.
 - both goods and Latvia has an absolute advantage in the production of neither good.
 - neither good and Latvia has an absolute advantage in the production of both goods.

ANS: C DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative

216. **Refer to Figure 3-8.** Belgium has a comparative advantage in the production of
- waffles and Latvia has a comparative advantage in the production of pancakes.
 - pancakes and Latvia has a comparative advantage in the production of waffles.
 - both goods and Latvia has a comparative advantage in the production of neither good.
 - neither good and Latvia has a comparative advantage in the production of both goods.

ANS: B DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage MSC: Applicative

217. **Refer to Figure 3-8.** If Belgium and Latvia switch from each country dividing its time equally between the production of waffles and pancakes to each country spending all of its time producing the good in which it has a comparative advantage, then total production of pancakes will increase by
- 3.
 - 6.
 - 9.
 - 12.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization MSC: Analytical

218. **Refer to Figure 3-8.** At which of the following prices would both Belgium and Latvia gain from trade with each other?
- 6 pancakes for 9 waffles
 - 8 pancakes for 20 waffles
 - 11 pancakes for 33 waffles
 - Belgium and Latvia could not both gain from trade with each other at any price.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

219. **Refer to Figure 3-8.** If Belgium and Latvia each spends all its time producing the good in which it has a comparative advantage and the countries agree to trade 7 waffles for 5 pancakes, then Belgium will consume
- 7 waffles and 7 pancakes and Latvia will consume 5 waffles and 5 pancakes.
 - 7 waffles and 7 pancakes and Latvia will consume 5 waffles and 11 pancakes.
 - 23 waffles and 7 pancakes and Latvia will consume 5 waffles and 5 pancakes.
 - 23 waffles and 7 pancakes and Latvia will consume 5 waffles and 11 pancakes.

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Comparative advantage | Trade MSC: Analytical

220. **Refer to Figure 3-8.** Belgium and Latvia would *not* be able to gain from trade if Latvia's opportunity cost of one pancake changed to
- 1/2 waffle.
 - 3/4 waffle.
 - 4/3 waffles.
 - 2 waffles.

ANS: C DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Gains from trade MSC: Analytical

221. **Refer to Figure 3-8.** Belgium should specialize in the production of
- waffles and import pancakes.
 - pancakes and import waffles.
 - both goods and import neither good.
 - neither good and import both goods.

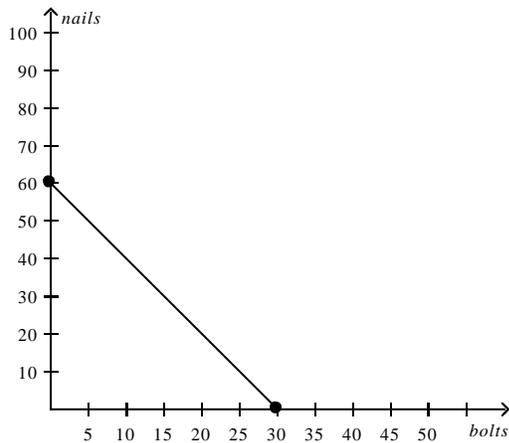
ANS: B DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Imports MSC: Applicative

222. **Refer to Figure 3-8.** Latvia should specialize in the production of
- waffles and import pancakes.
 - pancakes and import waffles.
 - both goods and import neither good.
 - neither good and import both goods.

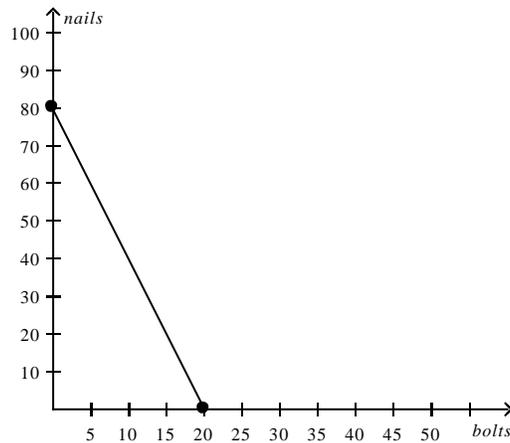
ANS: A DIF: 2 REF: 3-3
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Specialization | Imports MSC: Applicative

Figure 3-9

Uzbekistan's Production Possibilities Frontier



Azerbaijan's Production Possibilities Frontier



223. **Refer to Figure 3-9.** If Uzbekistan and Azerbaijan each divides its time equally between making bolts and making nails, then total production is
- 15 bolts and 40 nails.
 - 25 bolts and 70 nails.
 - 30 bolts and 80 nails.
 - 50 bolts and 140 nails.

ANS: B DIF: 2 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Applicative

224. **Refer to Figure 3-9.** If the production possibilities frontiers shown are each for two days of production, then which of the following combinations of bolts and nails could Uzbekistan and Azerbaijan together make in a given 2-day production period?

- a. 12 bolts and 120 nails
- b. 24 bolts and 96 nails
- c. 38 bolts and 50 nails
- d. 44 bolts and 24 nails

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

225. **Refer to Figure 3-9.** If the production possibilities frontiers shown are each for two days of production, then which of the following combinations of bolts and nails could Uzbekistan and Azerbaijan together *not* make in a given 2-day production period?

- a. 9 bolts and 122 nails
- b. 21 bolts and 98 nails
- c. 36 bolts and 56 nails
- d. 46 bolts and 18 nails

ANS: D DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical

226. **Refer to Figure 3-9.** Azerbaijan's opportunity cost of one nail is

- a. 1/4 bolt and Uzbekistan's opportunity cost of one nail is 1/2 bolt.
- b. 1/4 bolt and Uzbekistan's opportunity cost of one nail is 2 bolts.
- c. 4 bolts and Uzbekistan's opportunity cost of one nail is 1/2 bolt.
- d. 4 bolts and Uzbekistan's opportunity cost of one nail is 2 bolts.

ANS: A DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

227. **Refer to Figure 3-9.** Suppose Uzbekistan decides to increase its production of bolts by 10. What is the opportunity cost of this decision?

- a. 1/2 nail
- b. 2 nails
- c. 5 nails
- d. 20 nails

ANS: D DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Applicative

228. **Refer to Figure 3-9.** Suppose Azerbaijan is willing to trade 3 nails to Uzbekistan for every bolt that Uzbekistan makes and sends to Azerbaijan. Which of the following combinations of bolts and nails could Azerbaijan then consume, assuming Uzbekistan specializes in making bolts and Azerbaijan specializes in making nails?

- a. 8 bolts and 56 nails
- b. 14 bolts and 44 nails
- c. 18 bolts and 32 nails
- d. 20 bolts and 26 nails

ANS: A DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical

