

Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)

Chapter 2 The Economic Problem: Scarcity and Choice

2.1 Scarcity, Choice, and Opportunity Cost

1 Multiple Choice

- 1) Production is the process by which
- A) products are used by consumers.
 - B) resources are transformed into useful forms.
 - C) products are converted into capital.
 - D) resources are allocated and distributed.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 2) Goods and services of value to households are
- A) inputs in the production process.
 - B) outputs in the production process.
 - C) both inputs and outputs in the production process.
 - D) unrelated to the production process.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 3) Which of the following is a resource as the term is used by economists?
- A) buildings
 - B) labor
 - C) land
 - D) all of the above

Answer: D

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

- 4) Which of the following would an economist classify as capital?
- A) a new deposit of natural gas
 - B) a government savings bond
 - C) a police car
 - D) a \$100 traveller's check

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 5) Economists refer to things that have already been produced that are in turn used to produce other goods and services as
- A) land.
 - B) labor.
 - C) entrepreneurship.
 - D) capital.

Answer: D

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 6) The principle that the cost of something is equal to what is sacrificed to get it is known as the
- A) marginal principle.
 - B) principle of opportunity cost.
 - C) principle of diminishing returns.
 - D) reality principle.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 7) If scarcity was eliminated
- A) trade would become unnecessary.
 - B) opportunity costs would increase.
 - C) all nations would have an absolute advantage in producing all products.
 - D) the concept of trade-offs would become irrelevant.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

- 8) According to the theory of _____, specialization and free trade will benefit all trade partners, even when some are absolutely more efficient producers than others.
- A) comparative advantage
 - B) absolute advantage
 - C) social equity
 - D) laissez-faire

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Table 2.1 below to answer the following questions.

Table 2.1

	Molly	Pete
Avatar Design	6	8
Tattoo Design	3	2

- 9) Refer to Table 2.1. For Molly, the opportunity cost of designing one tattoo is
- A) 1/2 of an avatar design.
 - B) 1 avatar design.
 - C) 2 avatar designs.
 - D) 3 avatar designs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 10) Refer to Table 2.1. For Pete, the opportunity cost of designing one tattoo is
- A) 1/4 of an avatar design.
 - B) 2 avatar designs.
 - C) 4 avatar designs.
 - D) 6 avatar designs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 11) Refer to Table 2.1. Which of the following statements is *true*?
- A) Molly has a comparative advantage in both avatar design and tattoo design.
 - B) Pete has a comparative advantage in both avatar design and tattoo design.
 - C) Molly has a comparative advantage in avatar design and Pete has a comparative advantage in tattoo design.
 - D) Pete has a comparative advantage in avatar design and Molly has a comparative advantage in tattoo design.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Table 2.1. To maximize total production
- A) Molly should specialize in avatar design and Pete should specialize in tattoo design.
 - B) Pete should specialize in avatar design and Molly should specialize in tattoo design.
 - C) Molly and Pete should both split their time between designing avatars and tattoos.
 - D) Molly should design avatars and tattoos, but Pete should only design avatars.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Table 2.1. For Pete, the opportunity cost of designing three tattoos is _____ avatar designs.
- A) 6
 - B) 12
 - C) 24
 - D) an indeterminate number of

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Table 2.1. For Molly, the opportunity cost of designing four tattoos is _____ avatar designs.
- A) 6
 - B) 8
 - C) 12
 - D) 24

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 15) According to the theory of comparative advantage, trade and specialization _____ productivity by _____ opportunity costs.
- A) raise; raising
 - B) raise; lowering
 - C) lower; raising
 - D) lower; lowering

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 16) Specialization and trade exploit differences in productivity across workers and
- A) only benefit the exporter.
 - B) only benefit the importer.
 - C) make everyone better off.
 - D) make everyone worse off.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 17) If someone can produce a good at a lower opportunity cost, she _____ in producing that good.
- A) has a comparative advantage
 - B) has an absolute advantage
 - C) experiences no diminishing returns
 - D) experiences no sunk costs

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 18) If a vintner has a comparative advantage in producing wine
- A) he can produce more wine using the same resources than other vintners.
 - B) wine is the only product he can produce.
 - C) he can produce wine at a lower opportunity cost than other vintners.
 - D) he also has an absolute advantage in producing wine.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 19) Which of the following is an act of economic "investment"?
- A) The state legislature authorizes the sale of a state park.
 - B) An entrepreneur buys 5000 shares of stock at \$5 a share and then sells the stock at a profit for \$60 a share.
 - C) A brewer purchases a new fermentation system for his beer.
 - D) A teacher deposits \$500 in a retirement account.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

20) In economics, the creation of capital is referred to as

- A) investment.
- B) comparative advantage.
- C) consumption.
- D) allocation.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

21) The process of using _____ to produce new capital is known as _____.

- A) money; specialization
- B) resources; investment
- C) specialization; absolute advantage
- D) comparative advantage; inefficient production

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

22) Saving is an example of

- A) exchanging capital for cash.
- B) exchanging scarce resources for unlimited resources.
- C) trading present benefits for future benefits.
- D) trading future benefits for present benefits.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

23) The opportunity cost of investment in capital is forgone present consumption when

- A) resources are scarce.
- B) resources are unlimited.
- C) capital is in greater supply than labor.
- D) the public chooses consumption over investment.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

24) An example of an investment is

- A) the purchase of an iPhone by a company for one of its salesmen.
- B) the purchase of a share of Berkshire Hathaway stock.
- C) the purchase of a government Treasury bill.
- D) all of the above

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

25) Because resources are scarce, the opportunity cost of investment in capital is

- A) past investment.
- B) past consumption.
- C) foregone present consumption.
- D) future consumption.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

26) If the unemployment rate decreases from 9% to 6%, the economy will

- A) move closer to a point on the ppf.
- B) move away from the ppf toward the origin.
- C) remain on the ppf.
- D) remain on the origin.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

27) Periods of full employment correspond to

- A) points outside the ppf.
- B) points inside the ppf.
- C) points on the ppf.
- D) either points inside or outside the ppf.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.1 below to answer the questions that follow.

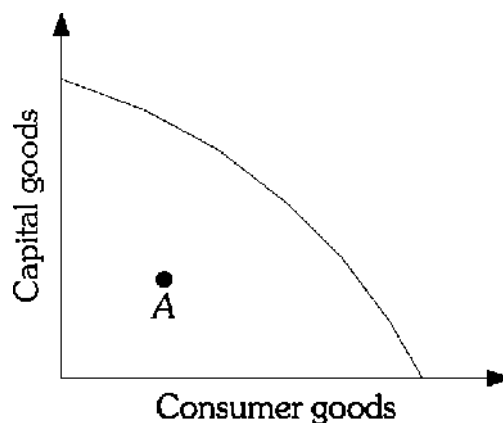


Figure 2.1

28) Refer to Figure 2.1. The economy is currently operating at Point A. The best explanation for this is that

- A) the economy has experienced increasing technology.
- B) the economy's resources are being underemployed.
- C) the economy has too few resources to operate on the production curve.
- D) the economy is operating above full employment.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

29) Refer to Figure 2.1. The economy's production possibility frontier _____ due to specialized resources.

- A) is convex to the origin
- B) displays constant opportunity costs
- C) demonstrates decreasing opportunity costs
- D) is bowed out from the origin

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 30) Refer to Figure 2.1. The shape of the economy's production possibility frontier shows
- A) decreasing opportunity costs.
 - B) constant opportunity costs.
 - C) increasing opportunity costs.
 - D) random opportunity costs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 31) If an economy is fully utilizing its resources, it can produce more of one product only if it
- A) doubles manufacturing of the product.
 - B) produces less of another product.
 - C) adds more people to the labor force.
 - D) reduces the price of the most expensive products.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.2 below to answer the questions that follow.

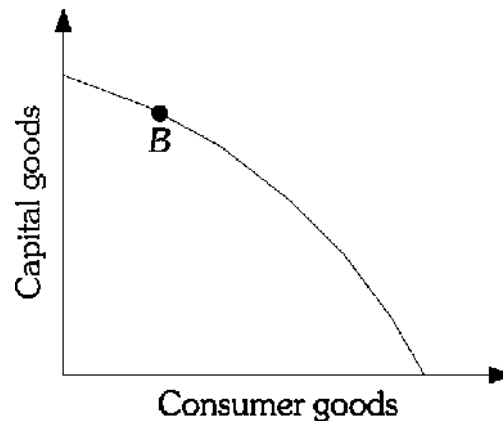


Figure 2.2

- 32) Refer to Figure 2.2. Full resource employment and production efficiency is represented by a point
- A) inside the production curve.
 - B) along the production curve.
 - C) outside the production curve.
 - D) either inside or along the production curve.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 33) Refer to Figure 2.2. You correctly deduce that all resources are fully employed and there are no production inefficiencies if this economy is currently operating at a point
- A) inside the production curve.
 - B) along the production curve.
 - C) outside the production curve.
 - D) either inside or along the production curve.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 34) All the combinations of goods and services that can be produced if all of society's resources are used efficiently are represented on an economy's
- A) production possibility frontier.
 - B) resource availability diagram.
 - C) factors of production statement.
 - D) allocative allotment graph.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 35) When an economy is producing inside its production possibility frontier
- A) production inefficiency occurs.
 - B) only technological advances will allow it to increase production.
 - C) it is efficient so long as it is producing what people want.
 - D) it must overcompensate by producing outside the curve to achieve efficiency.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 36) If an economy is producing on its production possibility frontier but is not producing what people want, the economy
- A) is experiencing technological advancement.
 - B) is producing at more than one point on the production possibility frontier.
 - C) is not being allocatively efficient.
 - D) is not being productively efficient.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 37) If a society is producing at a point along its production possibility frontier, then the society
- A) is fully employing its resources so it must be allocatively efficient.
 - B) is fully employing its resources, but not necessarily being allocatively efficient.
 - C) is underallocating resources so it must be inefficient.
 - D) is overallocating resources so efficiency is indeterminant.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 38) Suppose an economy produces cell phones and GPS devices in perfectly competitive industries. The economy is currently operating at a point on its production possibility frontier. The economy will most likely move to a less-desirable point on the production possibility frontier if
- A) more firms enter the GPS device industry.
 - B) more firms enter the cell phone industry.
 - C) more firms enter both the GPS device industry and the cell phone industry.
 - D) a single firm gains control over the production of cell phones.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 39) The value of the slope of a society's production possibility frontier is called its
- A) value of diminishing efficiency.
 - B) marginal rate of substitution.
 - C) marginal rate of transformation.
 - D) diminishing opportunity cost of capitalization.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 40) Assume a society can produce either beer or wine. If the marginal rate of transformation of gallons of beer into gallons of wine is 0.5, then the opportunity cost of wine is
- A) the 2 gallons of beer that must be forgone.
 - B) the 2 gallons of wine that must be forgone.
 - C) the 0.5 gallons of beer that must be forgone.
 - D) the additional 0.5 gallons of beer that can be produced.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

- 41) The marginal rate of transformation is
- A) also called the marginal rate of substitution.
 - B) growth associated with technological advances.
 - C) the measure of diminishing marginal utility.
 - D) the slope of the production possibility frontier.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Refer to the information provided in Figure 2.3 below to answer the questions that follow.

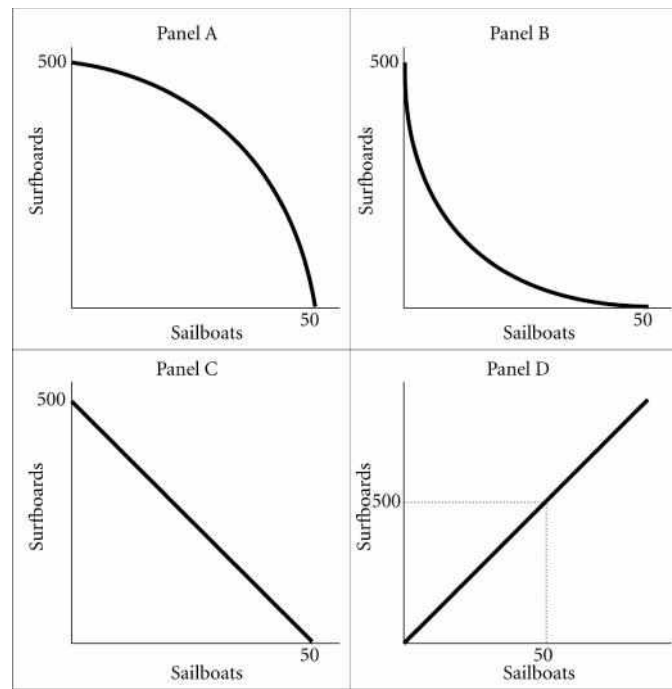


Figure 2.3

- 42) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The marginal rate of transformation of sailboats for surfboards is
- A) 1/10.
 - B) -1/10.
 - C) 10.
 - D) -10.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 43) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The opportunity cost of sailboats in terms of surfboards is
- A) constant.
 - B) increasing.
 - C) decreasing.
 - D) infinite.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 44) Refer to Figure 2.3. Increasing opportunity costs are best depicted by the production possibility frontier in panel
- A) A.
 - B) B.
 - C) C.
 - D) D.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 45) A society can produce two goods: green tea and vitamin water. As this society moves down its production possibility frontier, producing more and more units of vitamin water, the opportunity cost of producing vitamin water increases. The society's production possibilities frontier will be
- A) positively sloped and bowed outward.
 - B) positively sloped and bowed inward.
 - C) negatively sloped and bowed outward.
 - D) negatively sloped and bowed inward.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.4 below to answer the questions that follow.

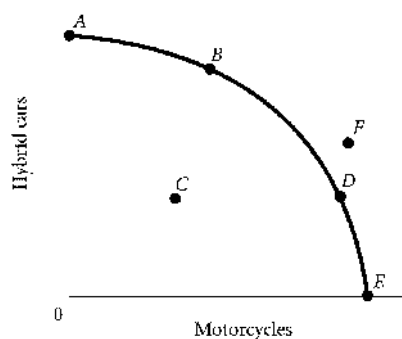


Figure 2.4

46) According to Figure 2.4, Point A necessarily represents

- A) an unattainable production point.
- B) only hybrid cars being produced.
- C) the economy's optimal production point.
- D) what society wants.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

47) According to Figure 2.4, the optimal point for the economy is

- A) B.
- B) D.
- C) F.
- D) indeterminate from the information given.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

48) According to Figure 2.4, Point F

- A) is efficient and attainable.
- B) represents underallocation of resources.
- C) represents what the people want.
- D) cannot be produced with the current state of technology.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 49) According to Figure 2.4, Point *E* necessarily represents
- A) an impossible production point.
 - B) technological advancement.
 - C) overallocation of resources.
 - D) only motorcycles being produced.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 50) According to Figure 2.4, an increase in unemployment may be represented by the movement from
- A) *B* to *A*.
 - B) *B* to *D*.
 - C) *C* to *D*.
 - D) *A* to *C*.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 51) According to Figure 2.4, as the economy moves from Point *B* to Point *D*, the opportunity cost of motorcycles, measured in terms of hybrid cars
- A) remains constant.
 - B) decreases.
 - C) increases
 - D) initially increases, then decreases.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 52) According to Figure 2.4, as the economy moves from Point *D* to Point *B*, the opportunity cost of hybrid cars, measured in terms of motorcycles
- A) remains constant.
 - B) decreases.
 - C) increases.
 - D) initially increases, then decreases.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 53) Refer to Figure 2.4. The economy moves from Point *E* to Point *B*. This could be explained by
- A) an increase in unemployment.
 - B) a reduction in unemployment.
 - C) a change in society's preferences for hybrid cars versus motorcycles.
 - D) an increase in economic growth.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 2.5 below to answer the questions that follow.

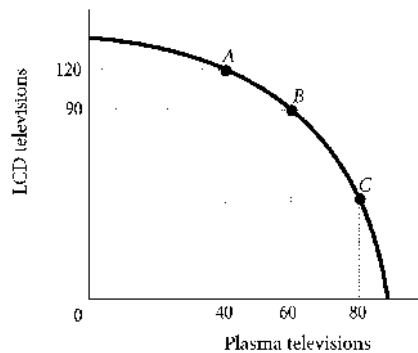


Figure 2.5

- 54) Refer to Figure 2.5. The economy is currently at Point *B*. The opportunity cost of moving from Point *B* to Point *A* is the
- A) 40 plasma TVs that must be forgone to produce 120 additional LCD TVs.
 - B) 20 plasma TVs that must be forgone to produce 30 additional LCD TVs.
 - C) 30 LCD TVs that must be forgone to produce 40 additional plasma TVs.
 - D) 120 LCD TVs that must be forgone to produce 20 additional plasma TVs.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 55) Refer to Figure 2.5. The marginal rate of transformation in moving from Point *B* to Point *A* is
- A) $-2/3$.
 - B) $-3/4$.
 - C) -1.5 .
 - D) -20 .

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

56) Refer to Figure 2.5. For this economy to move from Point C to Point B, _____ LCD TVs could be produced when the production of plasma TVs is reduced by 20.

- A) exactly 30
- B) fewer than 30
- C) more than 30
- D) exactly 60

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

57) Refer to Figure 2.5. The most desirable production alternative for society would be

- A) either Point B or Point C, as the total amount being produced at either of these points is approximately the same.
- B) indeterminate from this information, as we don't have any information about the society's desires.
- C) Point C, as at this point there are approximately equal amounts of LCD and plasma TVs being produced.
- D) at any of the labeled points, as all of the points represent an efficient allocation of resources.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

58) If an economy's production possibility frontier is negatively sloped and "bowed outward" from the origin, then the opportunity cost of producing a good

- A) increases as more of that good is produced.
- B) decreases as more of that good is produced.
- C) remains constant as more of that good is produced.
- D) remains constant as less of that good is produced.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

59) As you move up the production possibility frontier, the absolute value of the marginal rate of transformation

- A) increases.
- B) decreases.
- C) initially increases, then decreases.
- D) initially decreases, then increases.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

60) Because resources are not equally well suited to producing all goods

- A) as more of a good is produced the inputs used to produce that good will increase in price.
- B) the opportunity costs of producing a good will increase as more of that good is produced.
- C) the opportunity costs of producing a good will decrease as more of that good is produced.
- D) as more of a good is produced the quality of that good declines and therefore the costs of production increase.

Answer: B

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

61) Economic growth will most likely occur when

- A) a society acquires new resources.
- B) a society decides to produce less using existing resources.
- C) the society begins to produce the combination of goods society wants most.
- D) technology remains unchanged but unemployment increases.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.6 below to answer the questions that follow.

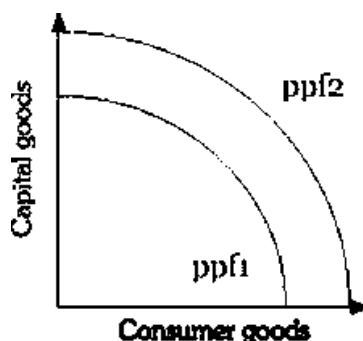


Figure 2.6

- 62) Refer to Figure 2.6. An increase in the economy's capital stock is represented by a
- A) shift from ppf2 to ppf1.
 - B) shift from ppf1 to ppf2.
 - C) movement along ppf1.
 - D) movement along ppf2.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 63) Refer to Figure 2.6. A shift from ppf1 to ppf2 may be caused by
- A) an increase in inflation.
 - B) an increased desire for consumer goods.
 - C) a change in consumer tastes.
 - D) an improvement in technology.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 64) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from ppf2 to ppf1?
- A) a decrease in the economy's capital stock
 - B) an increase in production efficiency
 - C) a change in consumer's tastes
 - D) economic growth

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

65) Refer to Figure 2.6. Which of the following will NOT cause the production possibility frontier to shift from ppf^1 to ppf^2 ?

- A) a decrease in the unemployment rate assuming a constant labor force.
- B) an increase in the stock of capital
- C) the discovery of previously unknown natural gas sources
- D) an improvement in technology

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

66) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from ppf^2 to ppf^1 ?

- A) a change in consumer tastes
- B) the purchase of government Treasury bills
- C) moving resources from consumer goods to capital goods
- D) a decrease in the general educational level of the population

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

67) Refer to Figure 2.6. If the economy is at ppf^2 , a change in consumer preferences would be shown by a

- A) shift from ppf^2 to ppf^1 .
- B) movement along ppf^1 .
- C) movement along ppf^2 .
- D) shift from ppf^1 to ppf^2 .

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

68) Due to a mild winter, Florida experienced a bumper crop of oranges. This would best be represented by a(n)

- A) movement down the U.S. production possibility frontier.
- B) movement off the U.S. production possibility frontier to some point inside the frontier.
- C) movement up the U.S. production possibility frontier.
- D) outward shift of the U.S. production possibility frontier away from the origin.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

69) For an economy to produce at a point _____ current production possibility frontier, the economy must increase its resource base.

- A) higher up on its
- B) inside its
- C) beyond its
- D) which is optimally efficient on its

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

70) In terms of the production possibility frontier, _____ would best be shown by the production possibility frontier shifting outward.

- A) an increase in productivity attributable to new technology
- B) a decrease in the unemployment rate
- C) a shift in resources from capital goods to consumer goods
- D) a change in consumer tastes

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

71) A decrease in the stock of capital will cause the

- A) production possibility frontier to shift outward.
- B) production possibility frontier to shift inward.
- C) economy to move down the production possibility frontier.
- D) economy to move closer to its production possibility frontier.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

72) Consider two countries, Estonia and Ukraine. Estonia devotes a larger portion of its production to capital. All other things equal which of the following statements is most likely true?

- A) Estonia is a poorer country than Ukraine.
- B) Estonia will move up its production possibility curve faster than Ukraine.
- C) Estonia's production possibility frontier will shift up and out farther and faster than Ukraine's.
- D) Ukraine is producing inside its production possibility frontier, whereas Estonia is producing at a point on its production possibility frontier.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

73) The gap between rich and poor countries has _____ over time because poor countries find it difficult to devote resources to _____ production.

- A) increased; capital
- B) decreased; capital
- C) remained constant; capital
- D) remained constant; capital and consumer goods

Answer: A

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

74) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a large amount of capital goods and a small amount of consumer goods. This is most likely to be a

- A) "poor" country because such a nation has difficulty devoting many resources to the production of consumer goods.
- B) "rich" country because such a nation can afford to sacrifice.
- C) country with a free market.
- D) country with a command economy.

Answer: B

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

75) Given scarce resources, how societies go about deciding what to produce, how to produce it and for whom to produce best describes

- A) decreasing opportunity costs.
- B) the fallacy of composition.
- C) Ockham's razor.
- D) the economic problem.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

76) Related to the *Economics in Practice* on p. 28: Based on the increase in the number of women in the labor force over the past 50 years, the opportunity cost of preparing a home-cooked meal

- A) decreased.
- B) increased.
- C) remained constant.
- D) dropped to zero.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 77) Related to the *Economics in Practice* on p. 28: One reason for the increase in sales of frozen foods from \$1 billion in 1950 to \$27 billion in 2007 is the
- A) increased opportunity cost of cooking frozen meals.
 - B) decrease in the number of women in the labor force.
 - C) increased opportunity cost of preparing home-cooked meals.
 - D) decrease in popularity of the microwave oven.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

2 True/False

- 1) In economics, the term "investment" refers to the purchase of stocks and bonds.
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
- 2) Among the resources used in production are land and capital.
Answer: TRUE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Fact
- 3) Things that have already been produced that are in turn used to produce other goods and services over time are called "production possibility frontiers."
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
- 4) When two people trade, one must lose for the other to win.
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
- 5) Economic growth shifts a society's production possibility frontier toward the origin.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking

- 6) A society's production possibility frontier is bowed out from the origin because some resources are better suited for producing one good as opposed to the other.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
- 7) The "economic problem" is that given scarce resources, how do large societies go about answering the basic economic questions of what will be produced, why it will be produced, and how it will be equitably distributed.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
- 8) Comparative advantage refers to the ability to produce goods at a lower opportunity cost, and therefore more efficiently, than a competitor.
Answer: TRUE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
- 9) Comparative advantage refers to the ability to produce at a lower financial cost than a competitor.
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
- 10) Manufacturers produce only what the market is willing to pay for.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking

2.2 Economic Systems

1 Multiple Choice

- 1) In a command economy, _____ establishes what will be produced and when, sets production goals, and makes rules for distribution.
A) individuals and households
B) only privately owned firms
C) a centralized authority
D) individuals, households and privately owned firms
Answer: C
Diff: 2
Topic: Economic Systems
Skill: Definition

2) In a laissez-faire economy

- A) individual people and firms pursue their own self-interest.
- B) the government decided how to distribute goods and services.
- C) a centralized authority establishes what will be produced.
- D) consumers do not exercise choice.

Answer: A

Diff: 2

Topic: Economic Systems

Skill: Definition

3) Which of the following statements is *true*?

- A) Planned economies have fared very well in recent years, with many of these economies thriving.
- B) Command economies operate the most efficiently because the government makes all the production decisions.
- C) In command economies consumers still exercise choice.
- D) In a command economy, consumers answer the questions of what to produce, how to produce it, and how to distribute it.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

4) Production decisions are centralized in a

- A) laissez-faire economy.
- B) command economy.
- C) invisible-hand economy.
- D) utopian economy.

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Fact

5) Which of the following statements is true for a command economy?

- A) Consumers have no choice concerning what they buy.
- B) Manufacturers decide what is produced.
- C) The amount of a good supplied always equals the amount of the good demanded.
- D) The state decides how to distribute what is produced.

Answer: D

Diff: 1

Topic: Economic Systems

Skill: Fact

6) In a _____ economy, the behavior of buyers and sellers determines what gets produced, how it is produced, and who gets it.

- A) command
- B) laissez-faire
- C) socialist
- D) utopian

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Fact

7) In a market system, self-interest motivates most people to

- A) avoid paying insurance premiums.
- B) remain self-sufficient.
- C) provide products for other people.
- D) rely on government central planning.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is true of a market economy?

- A) In its pure form, it is also known as a command economy.
- B) Decisions are regulated by a central agency.
- C) The government answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
- D) It relies on millions of individual economic decisions to determine economic outcomes.

Answer: D

Diff: 2

Topic: Economic Systems

Skill: Definition

9) The idea that consumers determine what is produced in the economy through their demands is known as

- A) a laissez-faire economy.
- B) a command economy.
- C) consumer sovereignty.
- D) free enterprise.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Definition

- 10) The freedom of individuals to start and operate private business in search of profits is known as
- A) laissez-faire.
 - B) free enterprise.
 - C) centralized decision making.
 - D) consumer sovereignty.

Answer: B

Diff: 2

Topic: Economic Systems

Skill: Definition

- 11) The amount that _____ have accumulated out of past income through saving and inheritance is wealth.
- A) governments
 - B) households
 - C) markets
 - D) corporations

Answer: B

Diff: 2

Topic: Economic Systems

Skill: Definition

- 12) In a _____, the amount of output that any one household gets depends on its income and wealth.
- A) Marxist economy
 - B) socialist economy
 - C) command system
 - D) free market system

Answer: D

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

- 13) In which system are decisions made by thousands of people who have information about resources, production technology and consumer desires?
- A) market system
 - B) centrally planned system
 - C) command system
 - D) socialist system

Answer: A

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

14) In a laissez-faire economy, what provides individuals the information needed to make decisions?

- A) insurance
- B) prices
- C) patents
- D) government

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

15) Which of the following statements is *true*?

- A) In a free market system, the basic economic questions are answered with the help of a central government plan or directive.
- B) Individuals guided by selfish behavior will produce products and services that generate the highest profits.
- C) The basic coordinating mechanism in a free market system is quantity adjustments toward equilibrium.
- D) In a free market system, competition forces firms to adopt efficient production techniques.

Answer: D

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

16) Some economists advocate government intervention in a market economy when resource costs for a private producer _____ to society.

- A) are greater than the full cost
- B) are equal to the full cost
- C) do not reflect the full cost
- D) have no relevant cost

Answer: C

Diff: 1

Topic: Economic Systems

Skill: Fact

2 True/False

1) The market system works by getting each person, motivated by his or her own self-interest, to produce products for other people.

Answer: TRUE

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

2) A command economy is one in which individuals and firms set output targets, incomes and prices.

Answer: FALSE

Diff: 2

Topic: Economic Systems

Skill: Definition

3) Markets exist in a command economy.

Answer: TRUE

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

4) Price is the coordinating mechanism in a laissez-faire economy.

Answer: TRUE

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

5) The notion that buyers determine what will be produced by choosing what they purchase is called a command economy.

Answer: FALSE

Diff: 2

Topic: Economic Systems

Skill: Definition

