Chapter 3
The Economic Problem

3.1 Production Possibilities

1) The United States produced approximately ____ worth of goods and services in 2004.
   A) $12 trillion
   B) $12 billion
   C) $120 trillion
   D) $120 billion
   E) $1,200 trillion

   Answer: A
   Topic: Production possibilities
   Skill: Level 1: Definition
   Objective: Checkpoint 3.1
   Author: SB

2) At any given instant,
   A) resources and technology can be immediately changed.
   B) resources and technology are fixed.
   C) all wants are satisfied.
   D) no wants are satisfied.
   E) resources are fixed but technology can be immediately changed.

   Answer: B
   Topic: Production possibilities
   Skill: Level 1: Definition
   Objective: Checkpoint 3.1
   Author: SB
3) The production possibilities frontier model
   A) does not use the *ceteris paribus* assumption.
   B) measures costs in dollars.
   C) focuses on the production of two goods.
   D) represents the benefits of production, but contains no information on costs.
   E) shows how a nation produces goods and services.
   
   Answer: C
   *Topic: Production possibilities frontier*
   *Skill: Level 1: Definition*
   *Objective: Checkpoint 3.1*
   *Author: SB*

4) Which of the following is an assumption used when drawing a production possibilities frontier?
   i. Human wants and desires are limited to what is available.
   ii. Only two goods are considered.
   iii. The level of technology is fixed and unchanging.
   A) i only.
   B) ii only.
   C) i and iii.
   D) ii and iii.
   E) i, ii, and iii.
   
   Answer: D
   *Topic: Production possibilities frontier*
   *Skill: Level 2: Using definitions*
   *Objective: Checkpoint 3.1*
   *Author: TS*

5) In the production possibilities model, the vertical and horizontal axes measure
   A) quantities of goods and services.
   B) quantities of factors of production.
   C) dollars.
   D) time.
   E) people's wants.
   
   Answer: A
   *Topic: Production possibilities frontier*
   *Skill: Level 2: Using definitions*
   *Objective: Checkpoint 3.1*
   *Author: SB*
6) While moving along a production possibilities frontier, the amount of labor ____, the amount of capital ____, and the level of technology ____.
   A) is fixed; is fixed; varies
   B) varies; is fixed; varies
   C) varies; is fixed; is fixed
   D) is fixed; is fixed; is fixed
   E) varies; varies; varies
   Answer: D

   Topic: Production possibilities frontier
   Skill: Level 3: Using models
   Objective: Checkpoint 3.1
   Author: CD

7) The production possibilities frontier is the boundary between the
   A) goods and services that the economy can produce.
   B) attainable and unattainable combinations of goods and services.
   C) wanted and unwanted combinations of goods and services.
   D) rational and irrational choices facing a society.
   E) affordable and unaffordable combinations of production.
   Answer: B

   Topic: Production possibilities frontier
   Skill: Level 3: Using models
   Objective: Checkpoint 3.1
   Author: SB
The table above gives four production possibilities for airplanes and cruise ships. In possibility A, how many resources are devoted to the production of airplanes?

A) 0  
B) few  
C) most  
D) all  
E) It is impossible to tell without more information about the prices of airplanes and cruise ships.

Answer: D

Topic: Production possibilities frontier  
Skill: Level 3: Using models  
Objective: Checkpoint 3.1  
Author: SB

Moving from one point to another on a production possibilities frontier implies

A) increasing the production of both goods.
B) decreasing the production of both goods.
C) increasing the production of one good and decreasing the production of another.
D) holding the production levels of both goods constant.
E) changing the amount of factors of production that are employed.

Answer: C

Topic: Production possibilities frontier  
Skill: Level 3: Using models  
Objective: Checkpoint 3.1  
Author: SB
10) Assume that an association of young workers has lobbied Congress to require that all workers retire once they reach the age of fifty. What impact would this law have on the nation's production possibilities frontier?
   A) no impact at all  
   B) The level of unemployment would decrease so the production possibilities frontier would shift outward.  
   C) The nation would move to a new position on its production possibilities frontier but the frontier itself would not shift.  
   D) The production possibilities frontier would shift inward.  
   E) The number of young workers would increase so the production possibilities frontier would shift outward.  

Answer: D  
Topic: Production possibilities frontier  
Skill: Level 4: Applying models  
Objective: Checkpoint 3.1  
Author: TS

11) A major earthquake occurs in the central part of the United States. What impact would this have on the nation's production possibilities frontier and why?
   A) It would shift outward because unemployment would be reduced.  
   B) Nothing would happen because the nation would still have the same capabilities.  
   C) A tradeoff would occur to replace the resources and goods destroyed.  
   D) It would shift inward because some of the nation's resources, such as capital and labor, would be destroyed.  
   E) It would not shift because people would get to work to replace any capital that was destroyed.  

Answer: D  
Topic: Production possibilities frontier  
Skill: Level 4: Applying models  
Objective: Checkpoint 3.1  
Author: TS
12) In the production possibilities frontier model, an unattainable point lies
   A) only on the production possibilities frontier itself.
   B) only inside the production possibilities frontier.
   C) only outside the production possibilities frontier.
   D) both on and outside the production possibilities frontier.
   E) There are no unattainable points in the production possibilities model.
   Answer: C
   Topic: Unattainable points
   Skill: Level 3: Using models
   Objective: Checkpoint 3.1
   Author: SB

13) If the U.S. economy reduces unemployment, which of the following would happen?
   A) The nation's production possibilities frontier would shift outward.
   B) A tradeoff on the nation's production possibilities frontier occurs.
   C) The economy would move toward its production possibilities frontier.
   D) The ceteris paribus assumption would be violated.
   E) The nation's production possibilities frontier would shift inward.
   Answer: C
   Topic: Attainable points, unemployment
   Skill: Level 3: Using models
   Objective: Checkpoint 3.1
   Author: TS
14) The table above shows a production possibilities frontier for an economy. Which of the following combinations is unattainable?

A) 0 loaves of bread and 800 books.
B) 100 loaves of bread and 800 books.
C) 200 loaves of bread and 800 books.
D) 300 loaves of bread and 200 books.
E) 0 loaves of bread and 0 books

Answer: C

Topic: Unattainable points
Skill: Level 3: Using models
Objective: Checkpoint 3.1
Author: CD

15) The table above shows a production possibilities frontier for an economy. If the economy tried to produce a combination of 250 loaves of bread and 800 books,

A) there is some unemployment.
B) there is full employment.
C) the tradeoff between bread and books is inefficient.
D) they cannot produce this combination because they lack enough resources or technology.
E) they are enjoying a free lunch.

Answer: D

Topic: Unattainable points
Skill: Level 3: Using models
Objective: Checkpoint 3.1
Author: CD
16) The table above shows a production possibilities frontier for an economy. If the economy chose to produce 300 loaves of bread and 400 books, the economy
   A) is producing at a point that is NOT production efficient.
   B) faces a tradeoff to get more books.
   C) has a free lunch to get more books.
   D) needs more resources to be able to produce at this point.
   E) is definitely producing at the point that is allocatively efficient.

Answer: B

17) Which of the following forces nations, firms, and individuals to make tradeoffs?
   A) confusion about what to do
   B) inefficiency in production
   C) scarcity of resources
   D) unemployment of resources
   E) efficiency

Answer: C

18) When a nation is producing on its production possibilities frontier, if more resources are used to produce one good, then the production of other goods
   A) must increase.
   B) must decrease.
   C) must remain the same.
   D) must change but they might increase or decrease.
   E) might increase if the nation can produce more efficiently.

Answer: B
19) The negative slope of the production possibilities frontier represents the idea
   A) that free lunches are possible.
   B) of tradeoffs, that in order to produce more of one good, the nation must produce less of another.
   C) of unemployment.
   D) of inefficient production.
   E) of allocative efficiency.
   Answer: B
   Topic: Tradeoffs
   Skill: Level 4: Applying models
   Objective: Checkpoint 3.1
   Author: SB

20) A movement from one point on a production possibilities frontier to another represents
   A) a tradeoff.
   B) a free lunch.
   C) full employment of labor but not capital.
   D) unemployment.
   E) an advance in technology.
   Answer: A
   Topic: Tradeoffs
   Skill: Level 3: Using models
   Objective: Checkpoint 3.1
   Author: SB

21) The saying "There's no such thing as a free lunch," applies
   A) when there is some unemployment.
   B) on the production possibilities frontier.
   C) to unattainable combinations of goods and services.
   D) when more of one good can be produced without decreasing production of another.
   E) at all points inside the PPF.
   Answer: B
   Topic: Tradeoffs
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.1
   Author: SB
22) A free lunch (the absence of a tradeoff) when the production of a good is increased is possible for the entire economy only if
   A) less of some product is produced.
   B) prices are decreased.
   C) prices are increased.
   D) there is unemployment of resources.
   E) there is a movement along the PPF.

Answer: D
Topic: Free lunches
Skill: Level 2: Using definitions
Objective: Checkpoint 3.1
Author: TS

23) A movement from a point inside the production possibilities frontier to a point on the production possibilities frontier represents
   A) a tradeoff.
   B) a free lunch.
   C) full employment of labor but not capital.
   D) unemployment of labor but not capital.
   E) an infinite opportunity cost.

Answer: B
Topic: Free lunches
Skill: Level 3: Using models
Objective: Checkpoint 3.1
Author: SB

24) A reason the production possibilities frontier exists is
   A) unlimited resources and technology.
   B) scarcity of resources.
   C) scarcity of resources and unlimited technology.
   D) unemployment.
   E) that people's wants are unlimited.

Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Objective: Checkpoint 3.1
Author: STUDY GUIDE
25) The production possibilities frontier is a graph showing the
   A) exact point of greatest efficiency for producing goods and services.
   B) lowest point of production of goods and services.
   C) maximum combinations of goods and services that can be produced.
   D) minimum combinations of goods and services that can be produced.
   E) resources available for the economy's use.
   Answer: C

Topic: Production possibilities frontier
Skill: Level 1: Definition
Objective: Checkpoint 3.1
Author: STUDY GUIDE

26) The production possibilities frontier is a boundary that separates
   A) the combinations of goods that can be produced from the combinations of services.
   B) attainable combinations of goods that can be produced from unattainable ones.
   C) equitable combinations of goods that can be produced from inequitable ones.
   D) reasonable combinations of goods that can be consumed from unreasonable ones.
   E) affordable production points from unaffordable points.
   Answer: B

Topic: Production possibilities frontier
Skill: Level 1: Definition
Objective: Checkpoint 3.1
Author: STUDY GUIDE

27) Points inside the PPF are all
   A) unattainable and have full employment of resources.
   B) attainable and have full employment of resources.
   C) unattainable and have some unemployment of resources.
   D) attainable and have some unemployment of resources.
   E) unaffordable.
   Answer: D

Topic: Attainable points, unemployment
Skill: Level 2: Using definitions
Objective: Checkpoint 3.1
Author: STUDY GUIDE
28) During a time of high unemployment, a country can increase the production of one good or service
   A) without decreasing the production of something else.
   B) but must decrease the production of something else.
   C) and must increase the production of something else.
   D) by using resources in the production process twice.
   E) but the opportunity cost is infinite.

   Answer: A

   Topic: Free lunch
   Skill: Level 1: Definition
   Objective: Checkpoint 3.1
   Author: STUDY GUIDE

29) Moving along the production possibilities frontier itself illustrates
   A) the existence of tradeoffs.
   B) the existence of unemployment of productive resources.
   C) the benefits of free lunches.
   D) how free lunches can be exploited through trade.
   E) how tradeoffs need not occur if the economy is efficient.

   Answer: A

   Topic: Tradeoffs
   Skill: Level 1: Definition
   Objective: Checkpoint 3.1
   Author: STUDY GUIDE

30) Points on the PPF are all
   A) unattainable and have fully employed resources.
   B) free lunches.
   C) inefficient.
   D) attainable and have some unemployed resources.
   E) production efficient.

   Answer: E

   Topic: Production efficiency
   Skill: Level 1: Definition
   Objective: Checkpoint 3.1
   Author: STUDY GUIDE
3.2 Opportunity Cost

1) In a production possibilities frontier graph, the cost of producing more units of a good is measured by the
   A) dollar value of the resources used to produce the good.
   B) amount of the other good or service that must be forgone.
   C) dollar value of the additional output.
   D) area in the arc between the PPF and a straight line drawn between the starting point and the ending point.
   E) None of the above answers is correct.

Answer: B

Topic: Opportunity cost
Skill: Level 2: Using definitions
Objective: Checkpoint 3.2
Author: TS

2) The opportunity cost of producing one more unit of a good is calculated by dividing the
   A) increase in the quantity of that good by the decrease in the quantity of other good.
   B) total quantity of that good by the total quantity of other good.
   C) decrease in the quantity of the other good by the increase in the quantity of the good whose opportunity cost we’re calculating.
   D) total quantity of the other good by the total quantity of the good whose opportunity cost we’re calculating.
   E) price of the good whose opportunity cost we are calculating by the number of units of the other good that are forgone.

Answer: C

Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB
3) To find the opportunity cost of producing one more unit of any product while on the production possibilities frontier requires
   A) setting the amounts of the two products equal to each other.
   B) setting the change in one product equal to the change in the other product.
   C) dividing the amount of the product forgone by the amount of the product gained.
   D) subtracting the change in the product whose production increased from the change in the product whose production decreased.
   E) None of these describe how to find opportunity cost.

Answer: C

Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: TS

4) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced; what is the opportunity cost of producing a pound of bananas?
   A) 2 pounds of bananas
   B) 200 pounds of apples
   C) 2 pounds of apples
   D) 0.5 a pound of apples
   E) 12/5 = 2.4 pounds of apples

Answer: C

Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: TS
5) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced; what is the opportunity cost of producing a pound of apples?
   A) 2 pounds of bananas  
   B) 100 pounds of bananas  
   C) 2 pounds of apples  
   D) 0.5 a pound of bananas  
   E) 5/12 of a banana

Answer: D  
Topic: Opportunity cost  
Skill: Level 3: Using models  
Objective: Checkpoint 3.2  
Author: TS

6) A country produces only apples and bananas. Moving from point A to point B along its production possibilities frontier, 5 apples are forgone and 4 bananas are gained. What is the opportunity cost of a banana?
   A) 4 apples  
   B) 5/4 of an apple  
   C) 4/5 of an apple  
   D) 1 banana  
   E) None of the above answers is correct

Answer: B  
Topic: Opportunity cost  
Skill: Level 3: Using models  
Objective: Checkpoint 3.2  
Author: TS
7) A country produces only apples and bananas. Moving from point $A$ to point $B$ along its production possibilities frontier, 5 apples are gained and 4 bananas are forgone. What is the opportunity cost of an apple?
   A) 4 bananas
   B) $\frac{5}{4}$ of a banana
   C) $\frac{4}{5}$ of a banana
   D) 1 apple
   E) None of the above answers is correct

Answer: C

Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: TS

8) Moving from a point inside the production possibilities frontier to a point on the production possibilities frontier, the opportunity cost of producing more of the good on the horizontal axis
   A) increases.
   B) decreases.
   C) is constant.
   D) is 0.
   E) is infinite.

Answer: D

Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB

9) As an economy moves down along a straight line production possibilities frontier, what happens to the opportunity cost of producing the good on the horizontal axis?
   A) It remains constant.
   B) It decreases.
   C) It increases.
   D) Above the midpoint it decreases until it equals 1 at the midpoint and then it increases.
   E) None of these depict what happens to opportunity cost.

Answer: A

Topic: Opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.2
Author: TS
10) If the production possibilities frontier between bottled water and water in a jug is a straight line, which of the following statements would be correct?

A) A large amount of unemployment must exist.
B) Resources are equally productive at producing either product.
C) There is no tradeoff between the two goods.
D) There is no decrease in the production of one good when the production of the other is increased.
E) Producing more of one good gives the economy a free lunch.

Answer: B
Topic: Opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.2
Author: TS

11) Suppose that in a PPF graph, wheat is on the vertical axis and jets are on the horizontal axis. Moving down along the PPF, the

A) number of jets increases and the opportunity cost of jets increases.
B) amount of wheat increases and the opportunity cost of wheat increases.
C) number of jets increases and the opportunity cost of jets decreases.
D) amount of wheat increases and opportunity cost of wheat decreases.
E) opportunity cost of jets and wheat both increase.

Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.2
Author: CD
The table above shows the production possibilities for an economy. Drawing a PPF with books on the vertical axis and bread on the horizontal axis, a movement from possibility B to possibility C to possibility D shows the opportunity cost of books decreasing moving down along the PPF.

A) books decreasing  
B) bread decreasing  
C) bread increases  
D) books is constant  
E) books and bread are both increasing

Answer: C

Topic: Increasing opportunity cost  
Skill: Level 4: Applying models  
Objective: Checkpoint 3.2  
Author: CD

The table above shows the production possibilities for an economy. The opportunity cost of a loaf of bread is 2 books when moving from possibility B to possibility C.

A) 1/2 of a book  
B) 2 books  
C) 200 books  
D) 100 loaves of bread  
E) 1 loaf of bread

Answer: B

Topic: Increasing opportunity cost  
Skill: Level 4: Applying models  
Objective: Checkpoint 3.2  
Author: CD
14) The figure above illustrates a small country's production possibilities frontier. Based on the figure, we can tell that the nation's resources are
A) specialized because the slope is negative.
B) specialized because the production possibilities frontier is bowed out.
C) not specialized because the slope is negative.
D) not specialized because the production possibilities frontier is bowed out.
E) unlimited because the slope is negative and the PPF is bowed out.
Answer: B
Topic: Increasing opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.2
Author: SB

15) The figure above illustrates a small country's production possibilities frontier. Moving from point A to point B, the per unit opportunity cost of a VCR is ____ per VCR.
A) 2 computers
B) 4/3 of a computer
C) 100 computers
D) 1/2 of a computer
E) 1 VCR
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB
16) The figure above illustrates a small country’s production possibilities frontier. Moving from point C to point B, the per unit opportunity cost of computers is ____ per computer.
   A) 4 VCRs
   B) 5/4 of a VCR
   C) 4/5 of a VCR
   D) 1/4 of a VCR
   E) 1 computer

Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB

17) Once you find the opportunity cost of producing one unit of a good, to find the opportunity cost of producing the other good, you must
   A) take the inverse.
   B) multiply by the total amount produced of the second good.
   C) divide by the total amount produced of the second good.
   D) do nothing because the opportunity cost for the first good is the same as the opportunity cost for the second good.
   E) None of the answers are correct.

Answer: A
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: TS

18) While moving on the production possibilities frontier, if the opportunity cost of producing one good is 1/2, the opportunity cost of producing the other good (in the same range) is
   A) 1/2.
   B) 1/4.
   C) 2.
   D) 4.
   E) an amount that cannot be calculated without more information.

Answer: C
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB
19) The opportunity cost of producing more of one good on a production possibilities frontier is
   A) a dollar amount.
   B) a ratio of quantities.
   C) a ratio of prices.
   D) equal to the area inside the production possibilities frontier.
   E) a theoretical concept which cannot be measured.
Answer: B
Topic: Opportunity cost is a ratio
Skill: Level 2: Using definitions
Objective: Checkpoint 3.2
Author: SB

20) As an economy produces more of one of the goods on a bowed out production possibilities frontier, what happens to the opportunity cost of producing the good?
   A) It remains constant.
   B) It decreases.
   C) It increases.
   D) It might increase, decrease, or remain constant depending on how much people value the additional units of the good.
   E) None of these depict what happens to opportunity cost.
Answer: C
Topic: Increasing opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: TS

21) If there is increasing opportunity cost, then when moving downward on a production possibilities frontier, the opportunity cost of the good on the horizontal axis ____ as more of the good is produced.
   A) increases and the PPF gets steeper
   B) increases and the PPF gets flatter
   C) decreases and the PPF gets steeper
   D) decreases and the PPF gets flatter
   E) does not change and the PPF gets steeper
Answer: A
Topic: Increasing opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: CD
22) When a production possibilities frontier is bowed outward, as more of one good is produced, its opportunity cost
A) increases.
B) decreases.
C) remains constant.
D) might increase, decrease, or remain constant depending on how much people value the additional units of the good.
E) cannot be predicted.
Answer: A
Topic: Increasing opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: SB

23) A bowed out PPF reflects which of the following ideas?
   i) increasing opportunity cost.
   ii) resources are not equally productive in all activities.
   iii) prices of goods increase over time.
   A) i only
   B) i and ii
   C) i and iii
   D) ii and iii
   E) i, ii, and iii.
Answer: B
Topic: Increasing opportunity cost
Skill: Level 3: Using models
Objective: Checkpoint 3.2
Author: CD

24) If a production possibilities frontier becomes almost perpendicular as it reaches the x-axis, this indicates
   A) inefficient and wasteful production.
   B) that the slope has become nearly equal to zero.
   C) that the opportunity cost of the product on the x-axis is becoming equal to one
   D) that the opportunity cost of the product on the x-axis is becoming very large.
   E) that the opportunity cost of the product on the y-axis is becoming very large.
Answer: D
Topic: Increasing opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.2
Author: TS
25) The opportunity cost of a good increases as more of it is produced because
   A) there is no such thing as a free lunch.
   B) resources are not equally productive in all activities.
   C) producing more of a good requires additional resources.
   D) the number of forgone alternatives also increases.
   E) people want the good less as more is produced.

   Answer: B
   
   Topic: Increasing opportunity cost
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.2
   Author: SB

26) As an economy increasingly specializes in producing one good, the opportunity cost of that
good increases. The opportunity cost increases because
   A) resources are not equally productive in all activities.
   B) what must be paid to resources increases.
   C) human wants are virtually unlimited.
   D) not all goods are equally valuable.
   E) as more of a good is produced, the profit from its production must rise.

   Answer: A
   
   Topic: Increasing opportunity cost
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.2
   Author: TS

27) An economy produces only pizza and tacos and is producing on its production possibilities
frontier. As it increasingly specializes in producing pizza, resources must be transferred
from taco production. Which of the following types of resources should be transferred first?
   A) It makes no difference because the economy is on its PPF.
   B) the least efficient resources at producing pizza
   C) the most efficient resources at producing pizza
   D) the most efficient resources at producing tacos
   E) the cheapest resources.

   Answer: C
   
   Topic: Increasing opportunity cost
   Skill: Level 3: Using models
   Objective: Checkpoint 3.2
   Author: TS
28) The opportunity cost of one more slice of pizza in terms of sodas is the
   A) number of slices of pizza we have to give up in order to get one extra soda.
   B) number of sodas we have to give up in order to get one extra slice of pizza.
   C) total number of sodas that we have divided by the total number of slices of pizza that
      we have.
   D) total number of slices of pizza that we have divided by the total number of sodas that
      we have.
   E) price of pizza minus the price of the soda.

   Answer: B
   Topic: Opportunity cost
   Skill: Level 1: Definition
   Objective: Checkpoint 3.2
   Author: STUDY GUIDE

29) Moving between two points on a PPF, a country gains 6 automobiles and forgoes 3 trucks.

   The opportunity cost of 1 automobile is
   A) 3 trucks.
   B) 6 automobiles – 3 trucks.
   C) 2 trucks.
   D) 1/2 of a truck.
   E) 1 automobile.

   Answer: D
   Topic: Opportunity cost
   Skill: Level 3: Using models
   Objective: Checkpoint 3.2
   Author: STUDY GUIDE

30) Moving between two points on a PPF, a country gains 8 desktop computers and forgoes 4
    laptop computers. The opportunity cost of 1 desktop computer is
    A) 4 laptops.
    B) 8 desktops.
    C) 1 desktop.
    D) 2 laptops.
    E) 1/2 of a laptop.

    Answer: E
    Topic: Opportunity cost
    Skill: Level 3: Using models
    Objective: Checkpoint 3.2
    Author: STUDY GUIDE
31) A country produces only cans of soup and ink pens. If the country produces on its bowed out PPF and increases the production of cans of soup, the opportunity cost of additional
A) cans of soup is increasing.
B) cans of soup is decreasing.
C) cans of soup remains unchanged.
D) ink pens is increasing.
E) More information is needed to determine what happens to the opportunity cost.

Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Objective: Checkpoint 3.2
Author: STUDY GUIDE

32) The bowed out shape of the PPF reflects
A) different rates of unemployment.
B) increasing availability of resources and improved technology.
C) decreasing opportunity costs.
D) increasing opportunity costs.
E) changes in technology while moving along the PPF.

Answer: D
Topic: Increasing opportunity costs
Skill: Level 1: Definition
Objective: Checkpoint 3.2
Author: STUDY GUIDE

33) Moving along a country’s PPF, a reason opportunity costs increase is that
A) unemployment decreases as a country produces more and more of one good.
B) unemployment increases as a country produces more and more of one good.
C) technology declines as a country produces more and more of one good.
D) some resources are better suited for producing one good rather than the other.
E) technology must advance in order to produce more and more of one good.

Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Objective: Checkpoint 3.2
Author: STUDY GUIDE
34) Increasing opportunity cost exists
   A) in the real world.
   B) as long as there is high unemployment.
   C) only in theory but not in real life.
   D) for a country but not for an individual.
   E) inside the PPF but not on the PPF.

Answer: A

Topic: Increasing opportunity costs
Skill: Level 1: Definition
Objective: Checkpoint 3.2
Author: STUDY GUIDE

3.3 Using Resources Efficiently

1) For economists, allocative efficiency means producing
   A) goods and services at the lowest possible dollar cost.
   B) the goods and services that are best for society with no resource earning less than
      minimum wage.
   C) only those goods and services that do not harm consumers.
   D) the goods and services people value most highly, with no unemployed resources.
   E) any combination of goods and services that has no unemployed resources.

Answer: D

Topic: Efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: SB

2) If a nation cannot produce more of one good without producing less of some other good,
   the nation
   A) has definitely achieved allocative efficiency but might not be production efficient.
   B) has definitely achieved production efficiency but might not be allocatively efficient.
   C) are inside the production possibilities frontier.
   D) are outside the production possibilities frontier.
   E) has definitely achieved both production efficiency and allocative efficiency.

Answer: B

Topic: Production efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: SB
3) Production efficiency is represented by ____ a production possibilities frontier.
   A) all points on 
   B) all points inside 
   C) all points outside 
   D) a movement along 
   E) only one point on 
   Answer: A

Topic: Production efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: SB

4) Which of the following best describes production efficiency?
   A) total production costs are minimized
   B) resource use is at full employment
   C) marginal benefit equals marginal cost
   D) marginal cost is minimized
   E) marginal benefit is maximized
   Answer: B

Topic: Production efficiency
Skill: Level 1: Definition
Objective: Checkpoint 3.3
Author: TS

5) If an economy cannot produce more of one good without producing less of another good, this implies that which of the following has been achieved?
   A) allocative efficiency
   B) minimum marginal cost
   C) PPF efficiency
   D) production efficiency
   E) maximum marginal benefit
   Answer: D

Topic: Production efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: TS
6) When production efficiency does NOT occur,
   i. an economy is producing at a point within its PPF.
   ii. there are unemployed resources.
   iii. allocative efficiency can not occur.
      A) i only.
      B) i and ii.
      C) iii only.
      D) i and iii.
      E) i, ii, and iii.

Answer: E

Topic: Production efficiency
Skill: Level 3: Using models
Objective: Checkpoint 3.3
Author: CD

7) To achieve allocative efficiency, an economy
   A) must produce on its PPF.
   B) does not necessarily need to be production efficient.
   C) must have increases in technology.
   D) must leave some resources unemployed.
   E) can produce either on or within its PPF.

Answer: A

Topic: Allocative efficiency
Skill: Level 3: Using models
Objective: Checkpoint 3.3
Author: CD
8) The table above shows the production possibilities for an economy. When the economy produces a combination of 900 books and 50 loaves of bread,
   A) production efficiency occurs because resources are not overused.
   B) allocative efficiency is achieved because both goods are produced.
   C) production efficiency is not achieved.
   D) allocative and production efficiency are both achieved.
   E) production efficiency is not achieved but allocative efficiency might be achieved.

   Answer: C

   Topic: Production efficiency
   Skill: Level 4: Applying models
   Objective: Checkpoint 3.3
   Author: SB

9) The marginal benefit of a taco is measured by
   A) the price of the taco.
   B) the amount of another good a person is willing to give up to get one more taco.
   C) the amount of another good a person must give up to get one more taco.
   D) a point on the PPF.
   E) the opportunity cost of producing another taco.

   Answer: B

   Topic: Marginal benefit
   Skill: Level 1: Definition
   Objective: Checkpoint 3.3
   Author: CD
10) As more of any good is consumed,
   A) its marginal cost becomes smaller.
   B) its marginal benefit becomes smaller.
   C) the economy moves away from its points of production efficiency.
   D) the economy must become more allocatively efficient.
   E) None of the answers describe what happens as more of one good is produced.

   Answer: B
   Topic: Marginal benefit
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.3
   Author: TS

11) As more of a good is consumed, the marginal benefit of the good
   A) increases.
   B) decreases.
   C) remains constant.
   D) is unpredictable.
   E) first decreases and then increases.

   Answer: B
   Topic: Marginal benefit
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.3
   Author: SB

12) The marginal benefit of the first hotdog consumed is ____ the marginal benefit of the fifth
    hotdog consumed.
    A) equal to
    B) less than
    C) greater than
    D) the inverse of
    E) equal to 5 times

   Answer: C
   Topic: Marginal benefit
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.3
   Author: SB
13) Marginal benefit curves typically
   A) have positive slopes.
   B) have negative slopes.
   C) are horizontal lines.
   D) are vertical lines.
   E) are upside-down U-shaped curves.
   Answer: B
   Topic: Marginal benefit
   Skill: Level 3: Using models
   Objective: Checkpoint 3.3
   Author: SB

14) If the marginal benefit of one more car is two refrigerators, this means the
   A) producer must forego two refrigerators in order to free up enough resources to
      produce one more car.
   B) producer must forego one car in order to free up enough resources to produce two
      more refrigerators.
   C) consumer is willing to give up two refrigerators in order to get one more car.
   D) consumer must give up two refrigerators in order to get one more car.
   E) when the economy is producing efficiently, it is able to produce one more car and two
      more refrigerators.
   Answer: C
   Topic: Marginal benefit
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.3
   Author: SB

15) As more of a good is produced along a production possibilities frontier,
   A) its marginal cost becomes larger.
   B) its marginal benefit becomes larger.
   C) the economy’s production efficiency decreases.
   D) the economy’s production efficiency increases.
   E) None of the answers describe what happens as more of one good is produced.
   Answer: A
   Topic: Marginal cost
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.3
   Author: TS
16) Moving ____ along the marginal cost curve, the ____.
   A) upward; opportunity cost increases
   B) upward; marginal cost decreases
   C) downward; marginal cost increases
   D) upward; opportunity cost does not change
   E) downward; opportunity cost does not change

   Answer: A
   
   Topic: Marginal cost
   Skill: Level 3: Using models
   Objective: Checkpoint 3.3
   Author: CD

17) The marginal cost curve is
   A) downward sloping to reflect the bowed out PPF.
   B) downward sloping as marginal benefits increase.
   C) upward sloping because marginal cost falls as more of a good or service is produced.
   D) upward sloping to reflect increasing opportunity cost.
   E) U-shaped to reflect the bowed out PPF.

   Answer: D
   
   Topic: Marginal cost
   Skill: Level 3: Using models
   Objective: Checkpoint 3.3
   Author: CD

18) Allocative efficiency occurs
   A) anywhere inside or on the production possibilities frontier.
   B) when the total cost of production is minimized.
   C) at all points on the production possibilities frontier.
   D) at only one point on the production possibilities frontier.
   E) at the points where the production possibilities frontier crosses the horizontal or vertical axis.

   Answer: D
   
   Topic: Allocative efficiency
   Skill: Level 1: Definition
   Objective: Checkpoint 3.3
   Author: TS
19) When allocative efficiency occurs,
   A) an economy produces the goods and services most highly valued.
   B) marginal benefit exceeds marginal cost by some amount.
   C) technology must be increasing.
   D) we can simultaneously produce more of all goods.
   E) marginal benefit exceeds marginal cost by as much as possible.

   Answer: A  
   Topic: Allocative efficiency  
   Skill: Level 1: Definition  
   Objective: Checkpoint 3.3  
   Author: CD

20) Allocative efficiency occurs when
   A) we cannot produce more of one good without producing less of another.
   B) it is possible to produce more of one good without producing less of another.
   C) production is on the PPF and is the combination of goods and services with the highest value to society.
   D) goods are allocated fairly across consumers.
   E) production is on or within the PPF.

   Answer: C  
   Topic: Allocative Efficiency  
   Skill: Level 1: Definition  
   Objective: Checkpoint 3.3  
   Author: SB

21) Which of the following is necessary for allocative efficiency to be achieved?
   A) Marginal benefit must be maximized.
   B) Marginal cost must be minimized.
   C) Marginal benefit must equal marginal cost.
   D) The difference between marginal benefit and marginal cost must be maximized.
   E) Production must be at a point inside the production possibilities frontier.

   Answer: C  
   Topic: Allocative efficiency  
   Skill: Level 2: Using definitions  
   Objective: Checkpoint 3.3  
   Author: TS
22) Which of the following are the rules for finding the point of allocative efficiency?

A) Produce on the PPF and then produce where the marginal benefit and marginal cost are as large as possible.
B) Produce on the PPF and then produce where marginal benefit equals marginal cost.
C) Produce on the PPF and then produce where marginal benefit and marginal cost are constant.
D) Produce on the PPF and then produce where the marginal benefit exceeds marginal cost by as much as possible.
E) Produce anywhere on the PPF.

Answer: B

Topic: Allocative efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: TS

23) To determine how much of a good to produce to achieve allocative efficiency, we

A) construct a production possibilities frontier and choose the midpoint.
B) construct a production possibilities frontier and choose any point on it.
C) must produce on the PPF and at the point where the marginal benefit and marginal cost of the good are equal.
D) must produce on the PPF and at the point where the marginal benefit exceeds by any amount the marginal cost of the good.
E) must produce on the PPF and at the point where the marginal benefit exceeds by as much as possible the marginal cost of the good.

Answer: C

Topic: Allocative efficiency
Skill: Level 3: Using models
Objective: Checkpoint 3.3
Author: SB
24) If the nation is producing at a point on its PPF, then at the point where marginal cost and marginal benefit curves intersect,
   A) only allocative efficiency necessarily occurs because production efficiency might or might not occur.
   B) production efficiency and allocative efficiency both occur.
   C) only production efficiency occurs.
   D) an economy can produce more of one good without decreasing the production of any other good.
   E) neither production efficiency nor allocative efficiency necessarily occurs.

Answer: B
Topic: Allocative efficiency
Skill: Level 3: Using models
Objective: Checkpoint 3.3
Author: CD

25) Suppose the nation is producing at a point on its PPF. If the marginal cost of producing one more computer is greater than the marginal benefit, the nation is producing
   A) too few computers to be allocatively efficient.
   B) too many computers to be allocatively efficient.
   C) the correct number of computers to be allocatively efficient.
   D) at the point of allocative efficiency.
   E) More information is needed to determine if the nation is or is not producing at the allocatively efficient point.

Answer: B
Topic: Allocative efficiency
Skill: Level 3: Using models
Objective: Checkpoint 3.3
Author: SB

26) Allocative efficiency occurs when
   A) the most highly valued goods and services are produced.
   B) all citizens have equal access to goods and services.
   C) the environment is protected at all cost.
   D) goods and services are free.
   E) production takes place at any point on the PPF.

Answer: A
Topic: Efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: STUDY GUIDE
27) Production efficiency occurs
   A) anywhere inside or on the production possibilities frontier.
   B) when the total cost of production is minimized.
   C) at all points on the production possibilities frontier.
   D) at only one point on the production possibilities frontier.
   E) at all points inside the production possibilities frontier.

Answer: C

Topic: Production efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: STUDY GUIDE

28) Marginal benefit equals the
   A) additional benefit from consuming another unit of a good.
   B) additional efficiency from producing another unit of a good.
   C) increase in profit from producing another unit of a good.
   D) cost of producing another unit of a good.
   E) total benefit from consuming all the units of the good or service.

Answer: A

Topic: Marginal benefit
Skill: Level 1: Definition
Objective: Checkpoint 3.3
Author: STUDY GUIDE

29) In general, the marginal cost curve
   A) has a positive slope.
   B) has a negative slope.
   C) is horizontal.
   D) is vertical.
   E) is U-shaped.

Answer: A

Topic: Marginal cost
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: STUDY GUIDE
30) Allocative efficiency is achieved when the marginal benefit of a product
   A) exceeds its marginal cost by as much as possible.
   B) exceeds its marginal cost but not by as much as possible.
   C) is less than its marginal cost.
   D) equals the marginal cost.
   E) equals zero.

Answer: D

Topic: Allocative efficiency
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: STUDY GUIDE

31) For resource use to be efficient, when the marginal benefit of a slice of pizza exceeds the
   marginal cost ____.
   A) more slices of pizza should be produced
   B) fewer slices of pizza should be produced
   C) no more slices of pizza should be produced
   D) allocative efficiency is reached only if the marginal benefit exceeds the marginal cost by
      as much as possible.
   E) None of the above answers is correct.

Answer: A

Topic: Efficient use of resources
Skill: Level 2: Using definitions
Objective: Checkpoint 3.3
Author: STUDY GUIDE
3.4 Economic Growth

1) Economic growth depends upon which of the following?
   i. Improving the quality of labor.
   ii. Technological advancement.
   iii. Increasing the amount of capital.
      
      A) i only.
      B) ii only.
      C) iii only.
      D) i and iii.
      E) i, ii, and iii.

      Answer: E

      Topic: Economic growth
      Skill: Level 1: Definition
      Objective: Checkpoint 3.4
      Author: TPS

2) As an economy grows,

      A) its PPF shifts outward.
      B) it can eliminate scarcity.
      C) the opportunity cost of production will approach 0.
      D) the opportunity cost of production will increase.
      E) its PPF does not shift; instead, the production point moves from inside the PPF to be closer to the PPF.

      Answer: A

      Topic: Economic growth and the PPF
      Skill: Level 1: Definition
      Objective: Checkpoint 3.4
      Author: NAU
3) Fred is stranded on a tropical island. He has discovered that he can spend his day catching fish. He has also noticed that it would be possible to clear some land and plant seeds to grow crops to feed himself. Fred prefers to spend only 8 hours per day on these two activities. What is the opportunity cost of clearing land and planting crops?

A) 0 because there is no money on the island
B) 0 because Fred has nothing better to do anyway
C) the reduction in current consumption of fish
D) the increase in future consumption of leafy green vegetables
E) the increase in cleared land

Answer: C

Topic: Economic growth, opportunity cost
Skill: Level 1: Definition
Objective: Checkpoint 3.4
Author: NAU

4) The opportunity cost of economic growth is

A) 0, because it means an expansion of production possibilities.
B) the decrease in the current production of productive factors.
C) a slower accumulation of human capital.
D) the decrease in the current production of consumption goods.
E) the increase in the nation's capital stock and/or its technology.

Answer: D

Topic: Economic growth, opportunity cost
Skill: Level 1: Definition
Objective: Checkpoint 3.4
Author: DMC

5) The PPF shows economic growth when the PPF

A) shifts outward, away from the origin.
B) shifts inward, towards the origin showing lower costs.
C) changes from a bowed out PPF to a flatter PPF.
D) changes from a flatter PPF to a more bowed out curve.
E) changes from a bowed out PPF to a bowed in PPF.

Answer: A

Topic: Economic growth and the PPF
Skill: Level 1: Definition
Objective: Checkpoint 3.4
Author: MR
6) To increase its economic growth, a nation should
   A) limit the number of people in college because they produce nothing.
   B) encourage spending on goods and services.
   C) encourage education because that increases the quality of labor.
   D) increase current consumption.
   E) eliminate expenditure on capital goods.

Answer: C

7) Other things being equal, if Mexico devotes more resources to train its population than Spain,
   A) Mexico will be able to eliminate opportunity cost faster than Spain.
   B) Mexico will be able to eliminate scarcity faster than Spain.
   C) Spain will grow faster than Mexico.
   D) Mexico will have more current consumption than Spain.
   E) Mexico will grow faster than Spain.

Answer: E

8) If a nation increases the current production of consumption goods, then
   A) its economic growth will slow down.
   B) the PPF will shift outward.
   C) the PPF will shift inward.
   D) some productive factors will become unemployed.
   E) it must produce at a point within its PPF.

Answer: A
9) Which of the following statements is (are) correct?
   i. As the economy grows, the opportunity costs of economic growth necessarily decrease.
   ii. Economic growth has no opportunity cost.
   iii. The opportunity cost of economic growth is current consumption forgone.
   A) i only.
   B) ii only.
   C) iii only.
   D) i and iii.
   E) i and ii.
   Answer: C

10) When a country’s production possibilities frontier shifts outward over time, the country is experiencing
   A) no opportunity cost.
   B) economic growth.
   C) higher unemployment of resources.
   D) a decrease in unemployment of resources.
   E) an end to opportunity cost.
   Answer: B

3.5 Specialization and Trade

1) The definition of "specialization" means that people
   A) produce several goods.
   B) produce one good.
   C) go to school.
   D) have an absolute advantage.
   E) have a comparative advantage.
   Answer: B
2) Having a comparative advantage means a nation can
A) benefit from trade.
B) produce at a higher opportunity cost.
C) produce more of the good.
D) produce without incurring an opportunity cost.
E) produce the good at a point beyond its PPF.

Answer: A

Topic: Comparative advantage
Skill: Level 1: Definition
Objective: Checkpoint 3.5
Author: SB

3) On a production possibilities frontier that is a straight line, the opportunity cost of producing the product measured on the horizontal axis is equal to the value
A) where the production possibilities frontier intersects the vertical axis.
B) where the production possibilities frontier intersects the horizontal axis.
C) of the slope of the production possibilities frontier.
D) of the inverse of the slope of the production possibilities frontier.
E) of the triangular area inside the production possibilities frontier.

Answer: C

Topic: Opportunity cost
Skill: Level 4: Applying models
Objective: Checkpoint 3.5
Author: TS

4) Which of the following best describes comparative advantage?
A) being able to produce more output than any other country
B) using the fewest number of resources to produce a given amount of output
C) having the largest number of resources compared to other countries
D) forgoing the fewest units of one product to produce a unit of another product
E) it is the same as absolute advantage

Answer: D

Topic: Comparative advantage
Skill: Level 2: Using definitions
Objective: Checkpoint 3.5
Author: TS
5) Which of the following is correct about comparative advantage?
   A) Some countries will have a comparative advantage in everything.
   B) Having a comparative advantage without an absolute advantage is impossible.
   C) A comparative advantage in a good means that the country can produce more of the good than any other country.
   D) A country has a comparative advantage in the production of a good if it can produce the good at lower opportunity cost than any other country.
   E) None of the above answers is correct.

   Answer: D

   Topic: Comparative advantage
   Skill: Level 3: Using models
   Objective: Checkpoint 3.5
   Author: TS

6) John can make pizza at a lower opportunity cost than Allen, but Allen can make more pizzas per day than John. Therefore,
   A) John cannot benefit from trade with Allen.
   B) Allen cannot benefit from trade with John.
   C) John has a comparative advantage in pizza.
   D) John has an absolute advantage in pizza.
   E) Allen has a comparative advantage in pizza.

   Answer: C

   Topic: Comparative advantage
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: SB

7) Alice and Gene work in the mailroom, sorting and delivering mail. In order for them to benefit from specialization and trade, Alice must
   A) be able to both sort and deliver faster than Gene.
   B) be equally productive in both sorting and delivering
   C) have a comparative advantage in both sorting and delivering.
   D) have a comparative advantage in one task and Gene must have a comparative advantage in the other task.
   E) be equally productive as Gene in both sorting and delivering.

   Answer: D

   Topic: Comparative advantage
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: SB
8) If John can produce 10 chairs or 20 lamps during a week while Mary can produce 12 chairs or 22 lamps in the same time, who has the comparative advantage in producing each good?
   A) Mary in producing both goods
   B) John in producing both goods
   C) Mary in producing chairs, John in producing lamps
   D) John in producing chairs, Mary in producing lamps
   E) Both John and Mary in both goods

Answer: C
Topic: Comparative advantage
Skill: Level 2: Using definitions
Objective: Checkpoint 3.5
Author: TS

9) Rika's opportunity cost of producing 100 t-shirts is 50 jackets. Jeff's opportunity cost of producing 75 t-shirts is 25 jackets. Who should specialize in jackets?
   A) Rika
   B) Jeff
   C) neither
   D) both
   E) More information is needed about their production possibilities frontiers to determine who should specialize in jackets.

Answer: A
Topic: Comparative advantage
Skill: Level 3: Using models
Objective: Checkpoint 3.5
Author: SB
10) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb spends all her time assembling packets, how many can she assemble?

A) 32  
B) 40  
C) 64  
D) 160  
E) 22

Answer: B

Topic: Production possibilities frontier  
Skill: Level 3: Using models  
Objective: Checkpoint 3.5  
Author: SB
11) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. What is Deb's opportunity cost of assembling 1 packet?
   A) 160 envelopes
   B) 40 envelopes
   C) 4 envelopes
   D) 1/4 of an envelope
   E) 4 packets
   Answer: C
   Topic: Opportunity cost
   Skill: Level 3: Using models
   Objective: Checkpoint 3.5
   Author: SB

12) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. Which of the following statements is correct?
   A) Deb has a comparative advantage in assembling packets.
   B) Pete has an absolute advantage in both assembling packets and stuffing envelopes.
   C) Deb has a comparative advantage in stuffing envelopes.
   D) Deb has an absolute advantage in both assembling packets and stuffing envelopes.
   E) Deb has a comparative advantage in both assembling packets and stuffing envelopes.
   Answer: C
   Topic: Comparative advantage
   Skill: Level 3: Using models
   Objective: Checkpoint 3.5
   Author: MR
13) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb and Pete specialize and trade, how many packets will be assembled?

A) 40  
B) more than 40 and less than 80  
C) 80  
D) 160  
E) more than 80 and less than 160

Answer: D  
*Topic: Achieving the gains from trade*  
*Skill: Level 3: Using models*  
*Objective: Checkpoint 3.5*  
*Author: SB*

14) To achieve gains from trade, a country

A) needs to have an absolute advantage in the production of all goods.  
B) specializes in the producing a good in which it has a lower opportunity cost.  
C) must produce at a point beyond its PPF.  
D) should produce at the midpoint of its PPF.  
E) needs to have an absolute advantage in the production of at least one good.

Answer: B  
*Topic: Achieving the gains from trade*  
*Skill: Level 2: Using definitions*  
*Objective: Checkpoint 3.5*  
*Author: CD*

15) Gains from trade

A) occur when one party to the trade has an absolute advantage in both goods.  
B) result in being able to consume beyond the trading individuals’ production possibilities frontiers.  
C) occur when people do not specialize.  
D) occur when opportunity costs are equal.  
E) always benefit one party but not the other party of any trade.

Answer: B  
*Topic: Achieving the gains from trade*  
*Skill: Level 3: Using models*  
*Objective: Checkpoint 3.5*  
*Author: SB*
16) In order to achieve the gains from trade, individuals must
   A) produce some of both goods.
   B) specialize.
   C) have very low opportunity costs.
   D) have very high opportunity costs.
   E) have an absolute advantage in the production of at least one good or service.

   Answer: B

   Topic: Achieving the gains from trade
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: SB

17) Achieving the benefits of global specialization is impossible for two countries without
   A) using money.
   B) international trade between the countries.
   C) having an absolute advantage.
   D) having equal opportunity costs of production in the countries.
   E) knowing the shape and position of the nations’ PPFs.

   Answer: B

   Topic: Achieving the gains from trade
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: TS

18) By specializing and trading, a country is able to
   A) obtain the absolute advantage in the goods it produces.
   B) consume but not to produce combinations of goods that lie beyond its production possibilities frontier.
   C) produce but not to consume combinations of goods that lie beyond its production possibilities frontier.
   D) both produce and consume combinations of goods that lie beyond its production possibilities frontier.
   E) All of the above answers are correct.

   Answer: B

   Topic: Achieving the gains from trade
   Skill: Level 3: Using models
   Objective: Checkpoint 3.5
   Author: TS
19) Assume the people of Indiana refuse to allow goods not produced within the state to be sold. Keeping in mind the gains from trade, what would happen to the amount of goods and services consumed within the state?

A) It would not change.
B) It would decrease.
C) It would increase.
D) It might increase, decrease, or not change depending on whether Indiana has or does not have an absolute advantage in producing all its goods and services.
E) There is not enough information given to determine the outcome.

Answer: B
Topic: Achieving the gains from trade
Skill: Level 4: Applying models
Objective: Checkpoint 3.5
Author: TS

20) If John can produce 10 chairs or 20 lamps during a week while Mary can produce 12 chairs or 22 lamps in the same time, who has the absolute advantage in producing each good?

A) Mary in producing both goods
B) John in producing both goods
C) Mary in producing chairs, John in producing lamps
D) John in producing chairs, Mary in producing lamps
E) Both Mary and John in both goods.

Answer: A
Topic: Absolute advantage
Skill: Level 2: Using definitions
Objective: Checkpoint 3.5
Author: TS

21) Having an absolute advantage

A) is the basis for specialization and trade.
B) means having a higher opportunity cost than the trading partner.
C) means having a lower opportunity cost than the trading partner.
D) means being able to produce more of each product than the trading partner.
E) means having a comparative advantage in production of the same goods.

Answer: D
Topic: Absolute advantage
Skill: Level 1: Definition
Objective: Checkpoint 3.5
Author: SBJ
22) If a country has
   A) an absolute advantage in producing a good, it definitely must also have a comparative advantage in producing that good.
   B) an absolute advantage in producing a good, it might or might not have a comparative advantage in producing that good.
   C) a comparative advantage in production of a good, it must also have an absolute advantage in producing that good.
   D) an absolute advantage in producing a good, it definitely will not have a comparative advantage in producing that good.
   E) None of the above answers is correct.

Answer: B
Topic: Absolute advantage
Skill: Level 2: Using definitions
Objective: Checkpoint 3.5
Author: CD

23) "Comparative advantage" is defined as a situation in which one person can produce
   A) more of all goods than another person.
   B) more of a good than another person.
   C) a good for a lower dollar cost than another person.
   D) a good for a lower opportunity cost than another person.
   E) all goods for lower opportunity costs than another person.

Answer: D
Topic: Comparative advantage
Skill: Level 1: Definition
Objective: Checkpoint 3.5
Author: STUDY GUIDE

24) Bob produces baseballs and softballs. In one hour he can produce 10 baseballs or he can produce 2 softballs. Bob's opportunity cost of producing 1 softball is
   A) 2 softballs.
   B) 10 baseballs.
   C) 5 baseballs.
   D) 1 baseball.
   E) 0.2 of a baseball.

Answer: C
Topic: Opportunity cost
Skill: Level 2: Using definitions
Objective: Checkpoint 3.5
Author: STUDY GUIDE
25) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Scott's opportunity cost of producing 1 taco is
   A) 1/2 of a pizza.
   B) 1 pizza.
   C) 2 pizzas.
   D) 20 pizzas.
   E) 2 tacos.
   Answer: A
   Topic: Opportunity cost
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: STUDY GUIDE

26) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Cindy's opportunity cost of producing 1 taco is
   A) 3/4 of a pizza.
   B) 1 pizza.
   C) 30 pizzas.
   D) 40 pizzas.
   E) 1 1/3 of a taco.
   Answer: A
   Topic: Opportunity cost
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: STUDY GUIDE

27) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Based on these data,
   A) Cindy has a comparative advantage at producing tacos.
   B) Scott has a comparative advantage at producing tacos.
   C) Cindy and Scott have the same comparative advantage when producing tacos.
   D) neither Cindy nor Scott has a comparative advantage when producing tacos.
   E) Cindy and Scott have the same comparative advantage when producing pizzas.
   Answer: B
   Topic: Comparative advantage
   Skill: Level 2: Using definitions
   Objective: Checkpoint 3.5
   Author: STUDY GUIDE
28) In one hour John can produce 20 loaves of bread or 8 cakes. In one hour Phyllis can produce 30 loaves of bread or 15 cakes. Which of the following statements is true?
   A) Phyllis has a comparative advantage when producing bread.
   B) John has a comparative advantage when producing cakes.
   C) Phyllis has an absolute advantage in producing both bread and cakes.
   D) John has an absolute advantage in producing both bread and cakes.
   E) Phyllis has a comparative advantage in producing both bread and cakes.

Answer: C

Topic: Absolute advantage
Skill: Level 3: Using models
Objective: Checkpoint 3.5
Author: STUDY GUIDE