

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The production possibilities frontier illustrates the 1) _____
 A) goods and services that people want.
 B) maximum combinations of goods and services that can be produced.
 C) resources the economy possess, but not its level of technology.
 D) limits to people's wants.
 E) amount of each good that people want to buy.

B

- 2) When drawing a production possibilities frontier, which of the following is held constant? 2) _____
 A) the available factors of production and the state of technology
 B) the amount of money in the economy
 C) the quantity of the goods and services that are produced
 D) the prices of goods and services
 E) None of the above because nothing is held constant when drawing the production possibilities frontier.

A

- 3) The production possibilities frontier is the boundary between the 3) _____
 A) attainable and unattainable combinations of goods and services.
 B) affordable and unaffordable combinations of production.
 C) wanted and unwanted combinations of goods and services.
 D) rational and irrational choices facing a society.
 E) goods and services that the economy can produce.

A

Possibility	Airplanes (number)	Cruise ships (number)
A	100	0
B	80	20
C	50	40
D	0	60

- 4) The table above gives four production possibilities for airplanes and cruise ships. In possibility A, 4) _____
 how many resources are devoted to the production of airplanes?
 A) most
 B) 0
 C) all
 D) few
 E) It is impossible to tell without more information about the prices of airplanes and cruise ships.

C

- 5) Moving from one point to another on a production possibilities frontier implies 5) _____
 A) increasing the production of both goods.
 B) changing the amount of factors of production that are employed.
 C) increasing the production of one good and decreasing the production of another.
 D) holding the production levels of both goods constant.
 E) decreasing the production of both goods.

C

- 6) 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? 6) _____
- A) It would shift outward because unemployment would be reduced.
 - B) It would not shift because people would get to work to replace any capital that was destroyed.
 - C) Nothing would happen because the nation would still have the same capabilities.
 - D) A tradeoff would occur to replace the resources and goods destroyed.
 - E) It would shift inward because some of the nation's resources, such as capital and labor, would be destroyed.

E

- 7) In a production possibilities frontier diagram, the attainable production points are shown as 7) _____
- A) only the points inside the production possibilities frontier.
 - B) any of the production points.
 - C) the points inside and the points on the production possibilities frontier.
 - D) only the points beyond the production possibilities frontier.
 - E) only the points on the production possibilities frontier.

C

- 8) In the production possibilities frontier model, an unattainable point lies 8) _____
- A) both on and outside the production possibilities frontier.
 - B) only inside the production possibilities frontier.
 - C) only on the production possibilities frontier itself.
 - D) only outside the production possibilities frontier.
 - E) There are no unattainable points in the production possibilities model.

D

- 9) Production efficiency occurs 9) _____
- A) at all points on the production possibilities frontier.
 - B) at only one point on the production possibilities frontier.
 - C) when the total cost of production is minimized.
 - D) at all points inside the production possibilities frontier.
 - E) anywhere inside or on the production possibilities frontier.

A

- 10) If a society moves from a period of time with significant unemployment to a time with full employment, its production possibilities frontier will 10) _____
- A) not shift because the society moves from a point inside the frontier to a point on the frontier.
 - B) shift leftward.
 - C) not shift because the society moves from one point on the frontier to a point inside the frontier.
 - D) not shift because the society moves from one point on the frontier to a point outside the frontier.
 - E) shift rightward.

A

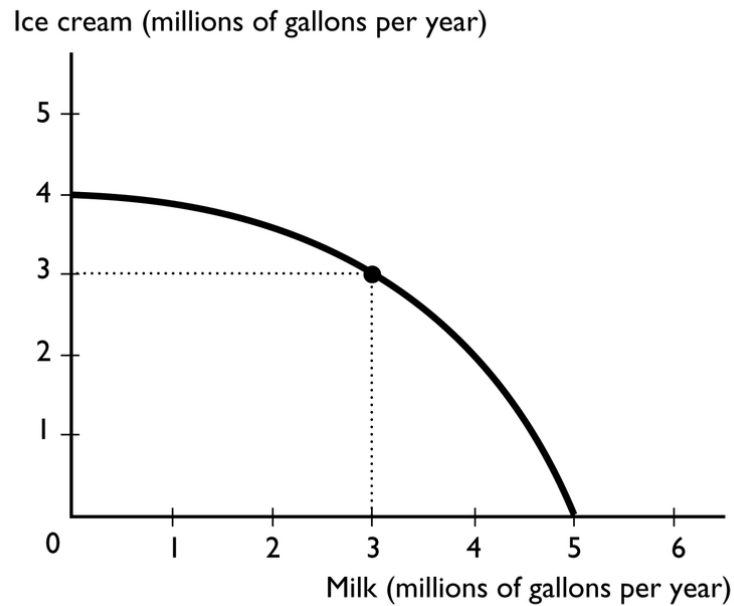
Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

11) The table above shows a production possibilities frontier for an economy. Which of the following combinations is unattainable?

11) _____

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

B

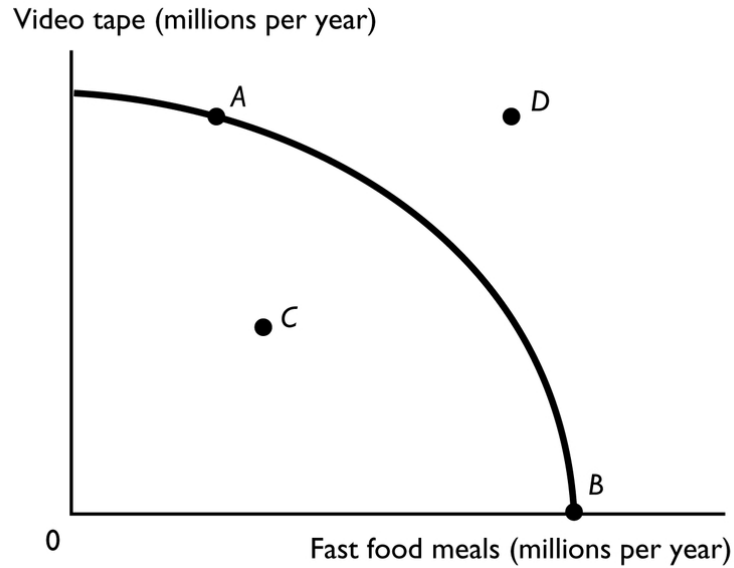


12) The figure above shows the production possibilities frontier for a country. A combination of 3 million gallons of milk and 3 million gallons of ice cream is

12) _____

- A) attainable and production efficient.
- B) unattainable and production efficient.
- C) unattainable.
- D) attainable and production inefficient.
- E) More information is needed to determine if the point is attainable or not.

A



13) Which point in the figure above is an attainable combination that would have unemployed resources? 13) _____

- A) point A
- B) point B
- C) point C
- D) point D
- E) point A and point B

C

14) The negative slope of the production possibilities frontier represents the idea 14) _____

- A) that prices rise as less is produced.
- B) that free lunches are possible.
- C) of tradeoffs, that in order to produce more of one good, the nation must produce less of another.
- D) of inefficient production.
- E) of unemployment.

C

15) A free lunch (the absence of a tradeoff) when the production of a good is increased is possible for the entire economy only if 15) _____

- A) resources are used inefficiently.
- B) prices are decreased.
- C) there is a movement along the PPF.
- D) less of some product is produced.
- E) prices are increased.

A

16) Moving along the production possibilities frontier itself illustrates 16) _____

- A) the existence of unemployment of some factors of production.
- B) how tradeoffs need not occur if the economy is efficient.
- C) the benefits of free lunches.
- D) how free lunches can be exploited through trade.
- E) the existence of tradeoffs.

E

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

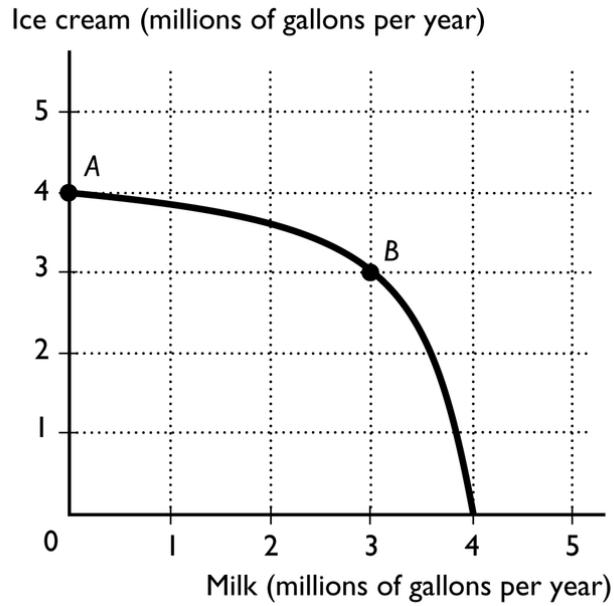
B

- 18) 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. Between these points, what is the opportunity cost of producing a pound of bananas?
- A) 200 pounds of apples
 - B) $12/5 = 2.4$ pounds of apples
 - C) 2 pounds of apples
 - D) 2 pounds of bananas
 - E) 0.5 a pound of apples

C

- 19) 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) $5/4$ of a bananas
 - C) 1 apple
 - D) $4/5$ of a banana
 - E) None of the above answers is correct

D

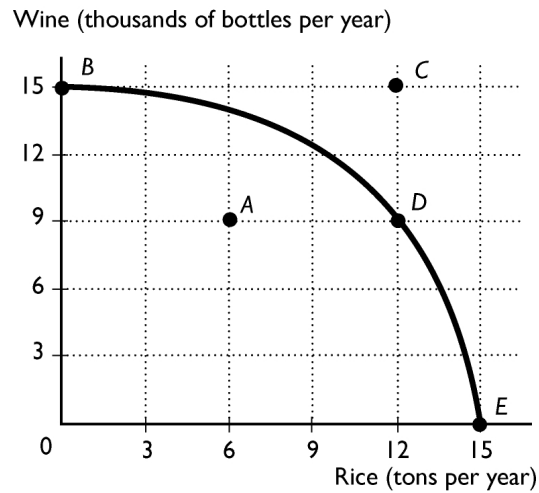


- 20) The figure above shows the production possibilities frontier for a country. The opportunity cost of a gallon of milk between combination point *A* and *B* is _____ 20)
- A) 1 gallon of ice cream for a gallon of milk.
 - B) 1/3 of a gallon of ice cream for a gallon of milk.
 - C) 3 gallons of ice cream for a gallon of milk.
 - D) zero because at point *A* zero milk is being produced.
 - E) 4 gallons of ice cream for a gallon of milk.

B

- 21) The figure above shows the production possibilities frontier for a country. If the economy is operating at point *B*, then the opportunity cost of another million gallons of milk is _____ 21)
- A) zero because after producing another million gallons of milk then zero gallons of ice cream are produced.
 - B) 3 gallons of ice cream for a gallon of milk.
 - C) 4 gallons of ice cream for a gallon of milk.
 - D) 1 gallon of ice cream for a gallon of milk.
 - E) 1/3 of a gallon of ice cream for a gallon of milk.

B



- 22) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point A. What would be the opportunity cost to increase the production of rice to 12 tons? 22) _____
- A) 15 thousand bottles of wine
 - B) 6 thousand bottles of wine
 - C) Nothing, it is a free lunch
 - D) 6 tons of rice
 - E) 9 thousand bottles of wine
- C
- 23) The bowed out (concave) shape of the production possibilities curve implies that as production of one good 23) _____
- A) increases, society must forgo decreasing amounts of another good.
 - B) increases, society must forgo increasing amounts of another good.
 - C) decreases, production of other goods decreases as well.
 - D) increases, society can obtain a free lunch.
 - E) increases, production of other goods increases as well.
- B
- 24) As an economy increasingly specializes in producing one good, the opportunity cost of that good 24) _____ increases. The opportunity cost increases because
- A) human wants are virtually unlimited.
 - B) resources are not equally productive in all activities.
 - C) as more of a good is produced, the profit from its production must rise.
 - D) what must be paid to resources increases.
 - E) not all goods are equally valuable.
- B

Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

- 25) 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 _____ moving down along the *PPF*. 25) _____
- A) bread decreasing
 - B) bread increases
 - C) books is constant
 - D) books decreasing
 - E) books and bread are both increasing

B

- 26) Which of the following is the best definition of economic growth? 26) _____
- A) The opportunity cost of consumption.
 - B) The sustained expansion of production possibilities.
 - C) Increased development of land and entrepreneurship.
 - D) The opportunity cost of capital.
 - E) The investment in capital and consumption goods by an economy.

B

- 27) As an economy grows, 27) _____
- A) it can eliminate scarcity.
 - B) the opportunity cost of production will approach 0.
 - C) its *PPF* does not shift; instead, the production point moves from inside the *PPF* to be closer to the *PPF*.
 - D) the opportunity cost of production will increase.
 - E) its *PPF* shifts outward.

E

Mary's production in 1 day		Mark's production in 1 day	
Dresses	8	Dresses	24
Jackets	12	Jackets	16

- 28) In the table above, how many jackets must Mark forgo for every dress he makes? 28) _____
- A) 1 jacket
 - B) 1 1/2 jackets
 - C) 16 jackets
 - D) 24 dresses
 - E) 2/3 of a jacket

E

- 29) A country has a comparative advantage in the production of a good if it can 29) _____
- A) produce the good at the lowest opportunity cost.
 - B) produce more of the good than another country.
 - C) produce more of the good most efficiently.
 - D) produce the good on and remain on its production possibilities frontier.
 - E) tradeoff producing the good for another good.

A

- 30) For country Gamma the opportunity cost for producing 1 computer is 10 tons of steel. For country Beta the opportunity cost for producing 1 computer is 6 tons of steel. Which country has the comparative advantage in the production of steel? 30) _____
- A) Beta
 - B) Gamma
 - C) Both have the comparative advantage in the production of steel.
 - D) Neither country has the comparative advantage in the production of steel.
 - E) More information is needed to determine which of the two nations has the comparative advantage.

B

- 31) If Country A can produce an extra plane by giving up two boats, and Country B can produce an extra plane by giving up three boats, then 31) _____
- A) the two countries have no incentive to trade with one another.
 - B) Country B has a comparative advantage over Country A in the production of planes.
 - C) Country A has an absolute advantage in producing planes and a comparative advantage in producing boats.
 - D) Country A would like to trade with B, but B cannot gain by trading with A.
 - E) Country A has a comparative advantage over Country B in the production of planes.

E

Jack's production possibilities				Jill's production possibilities			
Production point	Food (pounds)		Clothing (pounds)	Production point	Food (pounds)		Clothing (pounds)
A	24	and	0	A	45	and	0
B	16	and	4	B	30	and	5
C	8	and	8	C	15	and	10
D	0	and	12	D	0	and	15

- 32) In the table above, Jack's opportunity cost for 1 pound of food is _____ and his opportunity cost for 1 pound of clothing is _____. 32) _____
- A) 1 pound of food; 1 pound of clothing
 - B) 1/2 of a pound of clothing; 2 pounds of food
 - C) 2 pounds of clothing; 2 pounds of food
 - D) 1 pound of clothing; 4 pounds of food
 - E) 1/3 of a pound of clothing; 3 pounds of food

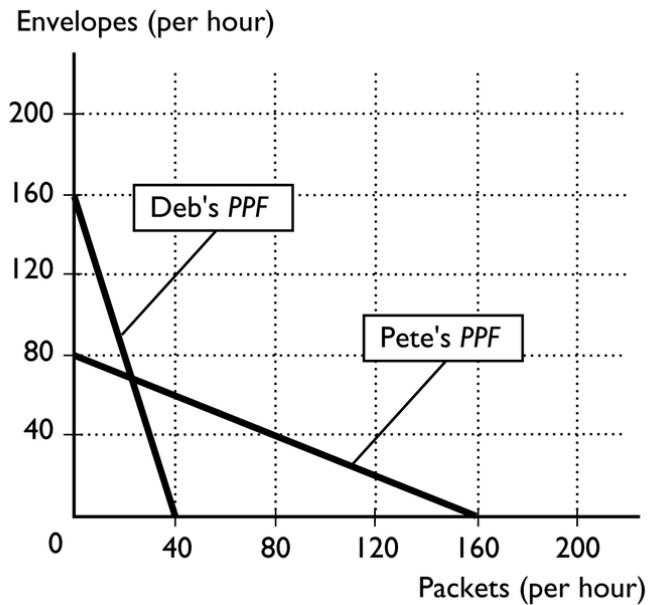
B

- 33) In the table above, Jill's opportunity cost for 1 pound of food is _____ and her opportunity cost for 1 pound of clothing is _____. 33) _____
- A) 1/2 of a pound of clothing; 2 pounds of food
 - B) 1/3 of a pound of clothing; 3 pounds of food
 - C) 2 pounds of clothing; 2 pounds of food
 - D) 1 pound of clothing; 4 pounds of food
 - E) 1 pound of food; 1 pound of clothing

B

- 34) In the table above, Jack's comparative advantage is producing _____ and Jill's comparative advantage is producing _____. 34) _____
- A) clothing; food
 - B) nothing; clothing and food
 - C) clothing and food; nothing
 - D) clothing; clothing
 - E) food; clothing

A



35) 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? 35) _____

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

D

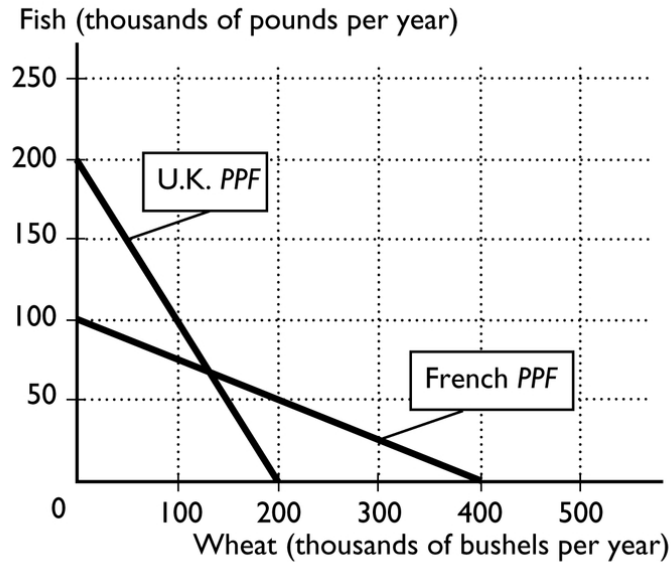
36) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. Which of the following statements is correct? 36) _____

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 a comparative advantage in both assembling packets and stuffing envelopes.
 E) Deb has an absolute advantage in both assembling packets and stuffing envelopes.

C

deb's OC for 1 packet --> 4 env
 pete's OC for 1 packet --> 1/4 env

pete has a comp. adv. in assembling packets



37) The figure above shows the production possibilities frontiers for the United Kingdom and France. 37) _____
 If the United Kingdom and France specialize and engage in trade, the United Kingdom will export _____ and France will export _____.

- A) fish; fish
- B) nothing; nothing
- C) wheat; fish
- D) fish; wheat
- E) wheat; wheat

D

38) What is gained when people engage in specialization and trade? 38) _____

- A) Specialization and trade allow people to consume inside their production possibilities frontiers.
- B) Specialization and trade allow people to produce outside their individual production possibilities frontiers.
- C) Specialization and trade allow people to consume at a point on their production possibilities frontiers.
- D) Specialization and trade allow people to consume outside their individual production possibilities frontiers.
- E) There are no gains from specialization and trade.

D

39) Mac can bake more cookies than Monica per hour. It must be true that 39) _____

- A) Mac has an absolute advantage in baking cookies.
- B) Mac cannot benefit by trade between the two of them.
- C) Monica has an absolute advantage in cookie baking.
- D) Monica has a comparative advantage in baking cookies.
- E) Mac has a comparative advantage in baking cookies.

A

	Potatoes (pounds)	or	Tomatoes (pounds)
Huey	12	or	8
Steve	6	or	2

40) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, which of the following statements is correct? 40) _____

- A) Huey has an absolute advantage in both potatoes and tomatoes.
- B) Steve has an absolute advantage in both potatoes and tomatoes.
- C) Steve has a comparative advantage in both potatoes and tomatoes.
- D) Steve has an absolute advantage in potatoes only.
- E) Huey has an absolute advantage in potatoes only.

A