

Fundamentals

Part B



A Simple Model of Production



Quiz Question

Use the following table to answer the question below.

Jorge's Production Possibilities Schedule	
Pounds of Green Beans	Pounds of Corn
0	320
20	240
40	160
60	80
80	0

Jorge's production possibilities schedule demonstrates that

- A) green beans have a trade-off with corn, but corn does not have a trade-off with green beans.
- B) both corn and green beans require a trade-off.
- C) there is no trade-off between corn and green beans.
- D) green beans do not have a trade-off with corn, but corn has a trade-off with green beans.

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- B) both corn and green beans require a trade-off.
- C) there is no trade-off between corn and green beans.
- D) green beans do not have a trade-off with corn, but corn has a trade-off with green beans.

The Correct Answer is B

Production Possibilities Frontier



Quiz Question

- A production possibilities frontier (PPF) illustrates which of the following concepts?
 - A) Unattainable points only
 - B) Opportunity cost
 - C) Decreasing opportunity cost
 - D) Attainable points only

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 - D) Attainable points only

The correct answer is B) opportunity cost.

Opportunity Cost - Production



Quiz Question

- If Angela spends all her time making pies she can make 20 each day, whereas if she spends all her time making cakes she can only make 10 each day. What is the opportunity cost of making a cake?
 - A) 1 pie
 - B) 2 pies
 - C) 3 pies
 - D) More than 3 pies

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 - B) 2 pies
 - C) 3 pies
 - D) More than 3 pies

The correct answer is B) 2 pies.

Absolute Advantage



Quiz Question

Absolute advantage is found by comparing different producers

- A. opportunity costs.
- B. payments to land, labor, and capital
- C. input requirements per unit of output
- D. locational and logistical circumstances

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The correct answer is C.

Comparative Advantage



Quiz Question

- Suppose Lou gives up the production of 50 bikes to make 1 car and Sally gives up the production of 75 bikes to make 1 car. Who has the comparative advantage in making cars?
 - A) Lou
 - B) Sally
 - C) Neither

Quiz Question

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 - A) Lou
 - B) Sally
 - C) Neither

The correct answer is A) Lou. Lou has a lower opportunity cost of making a car.

Quiz Question

- The theory of comparative advantage states that countries gain from trade because:
 - A) trade decreases competition, which decreases market power (the ability to influence).
 - B) each country is always better off in both goods involved.
 - C) output per worker in each firm increases.
 - D) if each country specializes in producing the products it is best suited to produce, world output can rise.

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 - D) if each country specializes in producing the products it is best suited to produce, world output can rise.

The correct answer is D.

Quiz Question

The table below presents the production possibilities schedules for Geoff and Dave, both of whom bake bread and muffins.

Production Possibilities Schedules for Geoff and Dave

Geoff		Dave	
Bread (loaves)	Muffins (dozens)	Bread (loaves)	Muffins (dozens)
5	0	4	0
0	10	0	12

- What is Geoff's opportunity cost of producing 1 loaf of bread?
- What is Dave's opportunity cost of producing 1 loaf of bread?
- Who has the comparative advantage in producing a loaf of bread?

Quiz Question

The table below presents the production possibilities schedules for Geoff and Dave, both of whom bake bread and muffins.

Production Possibilities Schedules for Geoff and Dave

Geoff		Dave	
Bread (loaves)	Muffins (dozens)	Bread (loaves)	Muffins (dozens)
5	0	4	0
0	10	0	12

a. What is Geoff's opportunity cost of producing 1 loaf of bread?

b. What is Dave's opportunity cost of producing 1 loaf of bread?

c. Who has the comparative advantage in producing a loaf of bread?

a. To find Geoff's opportunity cost of bread, rewrite some of the information from the table. The table tells us that Geoff can produce 5 loaves of bread and 0 muffins or 0 loaves of bread and 10 dozen muffins. This means that to produce 5 loaves of bread Geoff would have to give up 10 dozen muffins: $5B = 10M$

So, to find the opportunity cost of a loaf of bread in terms of muffins, divide both amounts by 5:

$$(5/5)B = (10/5)M$$

$$B = 2M$$

Therefore, a loaf of bread would have an opportunity cost of 2 dozen muffins for Geoff.

b. To find Dave's opportunity cost of bread, rewrite some of the information from the table. The table tells us that Dave can produce 4 loaves of bread and 0 muffins or 0 loaves of bread and 12 dozen muffins. This means that to produce 4 loaves of bread Dave would have to give up 12 dozen muffins:

$$4B = 12M$$

So, to find the opportunity cost of a loaf of bread in terms of muffins, divide both amounts by 4:

$$(4/4)B = (12/4)M$$

$$B = 3M$$

Therefore, a loaf of bread would have an opportunity cost of 3 dozen muffins for Dave.

c. Knowing the opportunity costs for both individuals, we can find the comparative advantage. Comparative advantage is the ability to produce a good or service at a lower relative opportunity cost than another producer. For Geoff to produce a loaf of bread, he has an opportunity cost of 2 dozen muffins, while for Dave to produce a loaf of bread, he has an opportunity cost of 3 dozen muffins. Because Geoff has a smaller opportunity cost or gives up less to produce each loaf of bread, Geoff has a comparative advantage in producing bread.

Specialization



Quiz Question

Use the following table to answer the question below.

Jake's Production Possibilities Schedule		Jane's Production Possibilities Schedule	
Pounds of Green Beans	Pounds of Corn	Pounds of Green Beans	Pounds of Corn
0	160	0	80
10	120	20	60
20	80	40	40
30	40	60	20
40	0	80	0

Jake should specialize in the production of which good?

Quiz Question

Use the following table to answer the question below.

Jake's Production Possibilities Schedule		Jane's Production Possibilities Schedule	
Pounds of Green Beans	Pounds of Corn	Pounds of Green Beans	Pounds of Corn
0	160	0	80
10	120	20	60
20	80	40	40
30	40	60	20
40	0	80	0

Jake should specialize in the production of which good?

Opportunity cost

1 Pound of GB = 4 Pounds of Corn

1 Pound of Corn = $\frac{1}{4}$ Pound of GB

Jake should specialize in Corn

Terms of Trade



Quiz Question

- Which of the following influence the terms of trade?
 - A) Different opportunity costs of the parties involved
 - B) The resource market
 - C) The goods and services market
 - D) The wealth of a country

Quiz Question

- Which of the following influence the terms of trade?
 - A) Different opportunity costs of the parties involved
 - B) The resource market
 - C) The goods and services market
 - D) The wealth of a country

The correct answer is A.

Quiz Question

Use the following table to answer the question below.

Jake's Production Possibilities Schedule		Jane's Production Possibilities Schedule	
Pounds of Green Beans	Pounds of Corn	Pounds of Green Beans	Pounds of Corn
0	160	0	80
10	120	20	60
20	80	40	40
30	40	60	20
40	0	80	0

The terms of trade for 1 pound of green beans must lie between _____ and _____ pounds of corn.

Quiz Question

Use the following table to answer the question below.

Jake's Production Possibilities Schedule		Jane's Production Possibilities Schedule	
Pounds of Green Beans	Pounds of Corn	Pounds of Green Beans	Pounds of Corn
0	160	0	80
10	120	20	60
20	80	40	40
30	40	60	20
40	0	80	0

The terms of trade for 1 pound of green beans must lie between 1 and 4 pounds of corn.

Gains from Trade



Quiz Question

- Specialization:
 - A) results in a more efficient use of resources.
 - B) results in more self-sufficiency.
 - C) is not considered an underlying concept of trade.
 - D) does not impact the world economy.

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- Specialization:
 - A) results in a more efficient use of resources.
 - B) results in more self-sufficiency.
 - C) is not considered an underlying concept of trade.
 - D) does not impact the world economy.

The correct answer is A.

Increasing Opportunity Costs



Quiz Question

- Jan's schedule of hours she spends at the gym and her quiz grades in economics is below. What does this tell us?

Week	Hours at Gym	Quiz Grade
1	3	85%
2	4	80
3	5	72
4	6	62

- A) Jan's opportunity cost of the fourth hour spent at the gym is a 4% decrease in quiz grade.
- B) Jan is experiencing constant opportunity costs.
- C) Jan is experiencing increasing opportunity costs.
- D) Jan is experiencing decreasing opportunity costs.

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Week	Hours at Gym	Quiz Grade
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- A) Jan's opportunity cost of the fourth hour spent at the gym is a 4% decrease in quiz grade.
- B) Jan is experiencing constant opportunity costs.
- C) Jan is experiencing increasing opportunity costs.
- D) Jan is experiencing decreasing opportunity costs.

The correct answer is C) Jan is experiencing increasing opportunity costs.

Circular Flow Model



Quiz Question

- In the circular flow diagram, which of the following flows is correct?
 - A) Resources flow from households to the goods and services market.
 - B) Goods and services (products) flow from businesses to the resource market.
 - C) Goods and services (products) flow from businesses to the goods and services market.

Quiz Question

- In the circular flow diagram, which of the following flows is correct?
 - A) Resources flow from households to the goods and services market.
 - B) Goods and services (products) flow from businesses to the resource market.
 - C) Goods and services (products) flow from businesses to the goods and services market.

The correct answer is C.