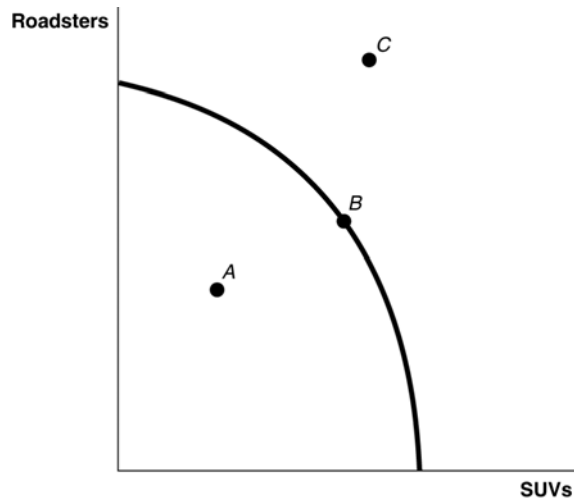


Old Exam Questions Which Cover Chapter 2 Topics

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

Figure 2-1

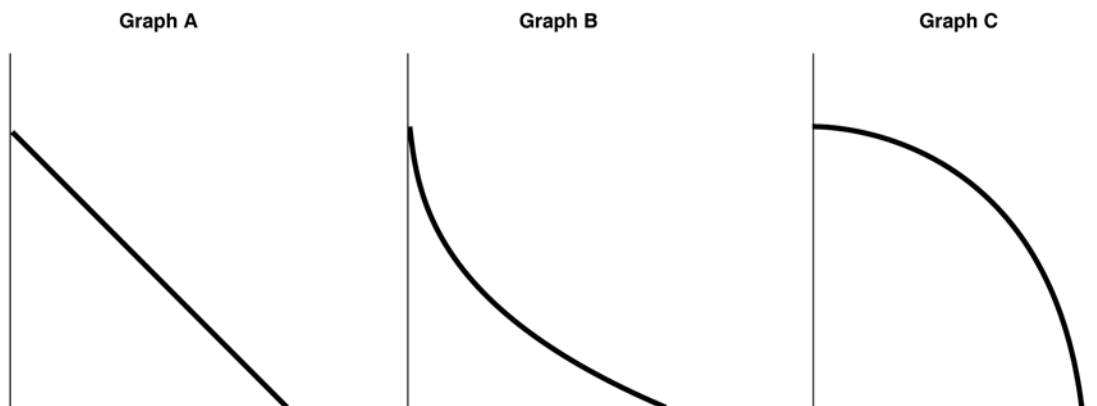


1) Refer to Figure 2-1. Point B is

- A) efficient.
- B) attainable with current resources.
- C) inefficient in that not all resources are being used.
- D) unattainable with current resources.
- E) More than one of the above is correct

1) _____

Figure 2-3



2) Refer to Figure 2-3. Carlos Vanya grows tomatoes and strawberries on his land. All of his land is equally well-suited for growing tomatoes and strawberries. Which of the graphs in Figure 2-3 represents his production possibilities frontier?

- A) Graph A
- B) Graph B
- C) Graph C
- D) either Graph A or Graph B depending on which production point this society ultimately chooses.

2) _____

3) *Refer to Figure 2-3.* Suppose that in each graph the good on the vertical axis is tomatoes and the good on the horizontal axis is strawberries. Which of the following statements is TRUE?

3) _____

I. In Graph A, the opportunity cost of an additional strawberry is constant and does not depend on the number of strawberries currently being produced.

II. Graph B is the shape of a production possibilities frontier which is most common in the real world.

III. In Graph C, the opportunity cost of an additional strawberry decreases as more strawberries are produced.

- A) II only
- B) I only
- C) I, II, and III
- D) I and III only
- E) III only

Figure 2-4

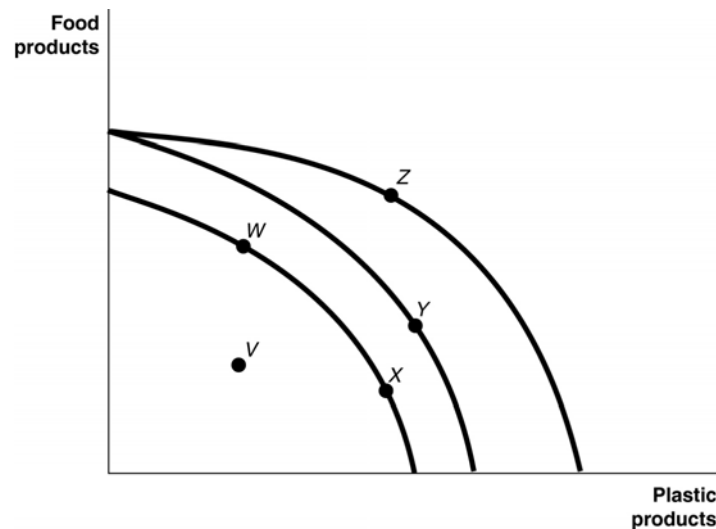


Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

4) *Refer to Figure 2-4.* Consider the following events:

4) _____

- a. a general reduction in technology brought about by a natural disaster
- b. a loss of resources caused by a war
- c. a general inefficiency in which technology and resources are not employed in the most productive way

Which of the events listed above could cause a movement from W to V?

- A) a only
- B) b and c only
- C) c only
- D) a, b, and c
- E) a and c only

5) **Refer to Figure 2-4.** Consider the following events:

5) _____

- a general reduction in technology brought about by a natural disaster
- a loss of resources caused by a war
- a general inefficiency in which technology and resources are not employed in the most productive way

Which of the events listed above could cause a movement from *W* to *X*?

- a only
- a, b, and c
- c only
- b and c only
- None of the above

6) Consider a production and trade example with two countries producing two goods. Which of the following statements is TRUE?

6) _____

- If one country has absolute advantage in one good, then the other country must have absolute advantage in the other good.
- It is possible for one country to have comparative advantage in the production of both goods.
- It is possible for one country to have absolute advantage in the production of both goods.
- If one country has absolute advantage in both goods, then it cannot gain by specializing and trading with the other country.
- More than one of the above is true.

Table K

	You		Your Neighbor	
	Blueberries	Peaches	Blueberries	Peaches
Devote all time to picking blueberries	40	0	30	0
Devote all time to picking peaches	0	20	0	10

Table K depicts how many pounds of blueberries and peaches you and your neighbor can pick in one week.

7) **Refer to Table K.** Which of the following statements is true?

7) _____

- You have comparative advantage in blueberries.
- Your neighbor's opportunity cost of picking one pound of blueberries is 10 pounds of peaches.
- You have comparative advantage in peaches.
- Your neighbor has absolute advantage in blueberries.
- More than one of the above is correct.

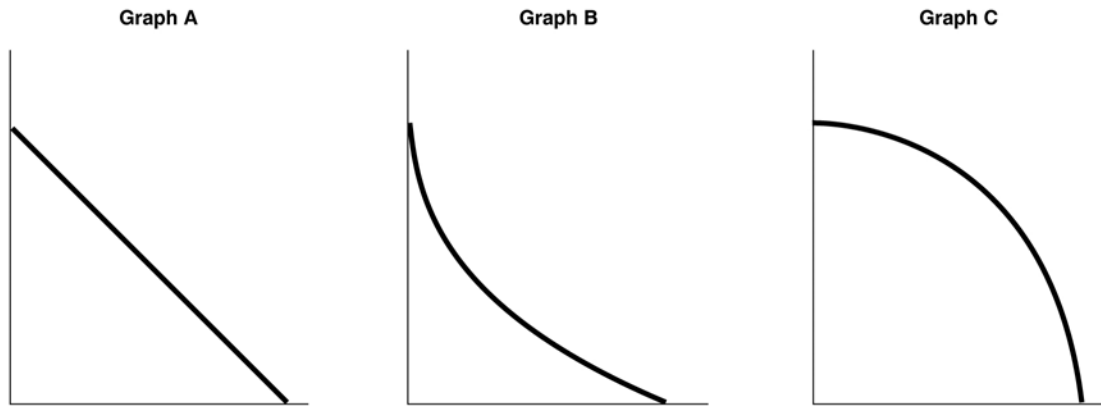
8) **Refer to Table K.** Your opportunity cost of picking one pound of blueberries is _____.

8) _____

- 1/4 pounds of peaches.
- 1/2 pounds of peaches.
- 20 pounds of peaches.
- 2 pounds of peaches.
- None of the above

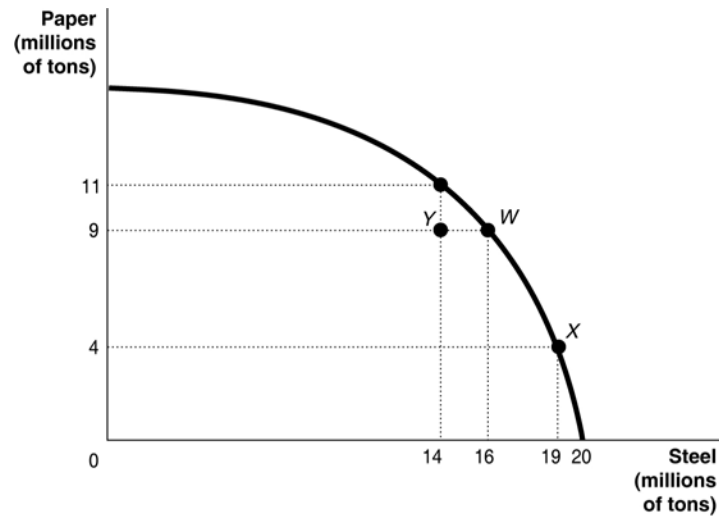
- 9) *Refer to Table K.* Your neighbor's opportunity cost of picking one pound of blueberries is _____ 9) _____
- A) 1/3 pounds of peaches.
 - B) 3 pounds of peaches.
 - C) 10 pounds of peaches.
 - D) \$3
 - E) None of the above
- 10) *Refer to Table K.* Which of the following will be true of the terms of trade that would be acceptable to both you and your neighbor? 10) _____
- A) the terms of trade will fall between 1 pound of blueberries for 1/3 pounds of peaches and 1 pound of blueberries from 1/2 pounds of peaches.
 - B) the terms of trade will fall between 1 pound of blueberries for 2 pounds of peaches and 1 pound of blueberries from 3 pounds of peaches.
 - C) the terms of trade will fall between 1 pound of blueberries for 10 pounds of peaches and 1 pound of blueberries from 20 pounds of peaches.
- 11) *Refer to Table K.* If you and your neighbor specialize and trade according to comparative advantage, which of the following is possible? 11) _____
- A) your neighbor can produce beyond her PPF
 - B) you can consume beyond your PPF
 - C) you can produce beyond your PPF
 - D) All of the above are possible
- 12) *Refer to Table K.* Suppose that initially (without specialization and trade) you produce and consume 12 pounds of blueberries and 14 pounds of peaches, and your neighbor produces and consumes 15 pounds of blueberries and 5 pounds of peaches. Now you and your neighbor completely specialize in producing the item for which you have a comparative advantage. After specialization, 6 pounds of peaches are traded for 15 pounds of blueberries. This specialization and trade results in you consuming ____ additional pounds of peaches and ____ additional pounds of blueberries. 12) _____
- A) 14 ; 15
 - B) 0 ; 3
 - C) 15 ; 14
 - D) 6 ; 15
 - E) 1 ; 0

Figure 2-3

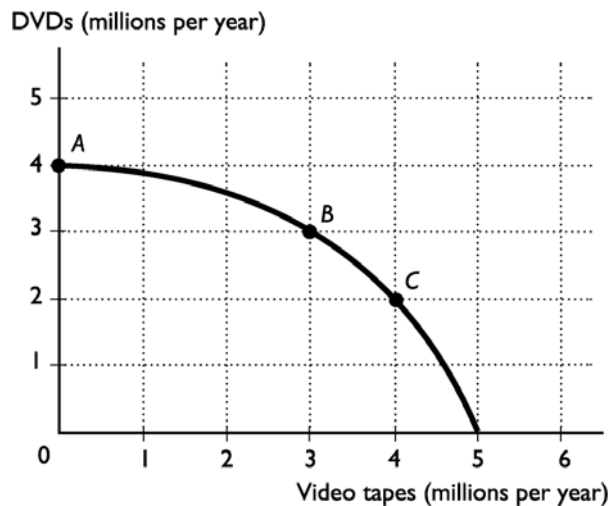


- 13) Refer to Figure 2-3. Carlos Vanya grows tomatoes and strawberries on his land. Suppose that tomato production is shown on the vertical axis and strawberry production is shown on the horizontal axis. All of his land and resources of production are equally well-suited to growing tomatoes and strawberries. Which of the graphs in Figure 2-3 represent his production possibilities frontier? 13) _____
- A) Graph A
B) Graph B
C) Graph C
D) Any of the above could be correct.
- 14) Refer to Figure 2-3. Carlos Vanya grows tomatoes and strawberries on his land. Suppose that tomato production is shown on the vertical axis and strawberry production is shown on the horizontal axis. Which of the following statements is TRUE? 14) _____
- A) In Graph C, the opportunity cost of another unit of strawberry production decreases as more strawberries are produced.
B) In Graph A, the opportunity cost of another unit of strawberry production increases as more strawberries are produced.
C) The reality of tradeoffs (i.e. "there's no such thing as a free lunch") is shown by the negative slopes of the PPFs in both Graph A and Graph C
D) In Graph A, the resources of production are specialized (i.e. some resources are better at producing strawberries and others are better at producing tomatoes).
E) More than one of the above
- 15) The production possibilities frontier model shows that 15) _____
- A) economic growth can only be achieved by free market economies.
B) if all resources are fully and efficiently utilized, more of one good can be produced only by producing less of another good.
C) a market economy is more efficient in producing goods and services than is a centrally planned economy.
D) if consumers decide to buy more of a product its price will increase.

Figure 2-5



- 16) Refer to Figure 2-5. If the economy is currently producing at point X, what is the opportunity cost of moving to point W? 16) _____
- A) 5 million tons of paper
 - B) 9 million tons of paper
 - C) 4 million tons of paper
 - D) 16 million tons of steel
 - E) 3 million tons of steel



- 17) In the figure above, at which of the labeled points (A, B, or C) is the opportunity cost of an additional video tape the largest? 17) _____
- A) A
 - B) B
 - C) C
 - D) None of the above -- the opportunity cost is the same at each point since each point lies on the PPF.

Figure 2-4

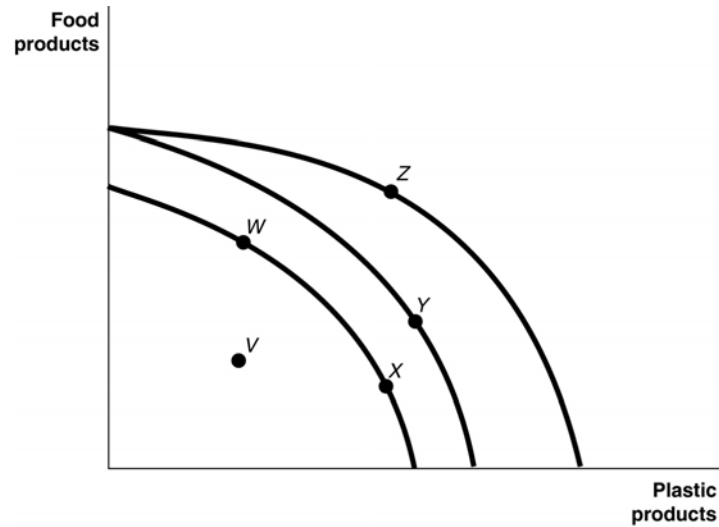


Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

18) *Refer to Figure 2-4.* Consider the following events:

- a. a general advance in production technology
- b. an increase in the size of the economy's labor force
- c. some resources which had been idle are now used in production

18) _____

Which of the events listed above could cause a movement from X to Y ?

- A) a only
- B) a and b only
- C) c only
- D) a and c only
- E) a, b, and c

Figure C

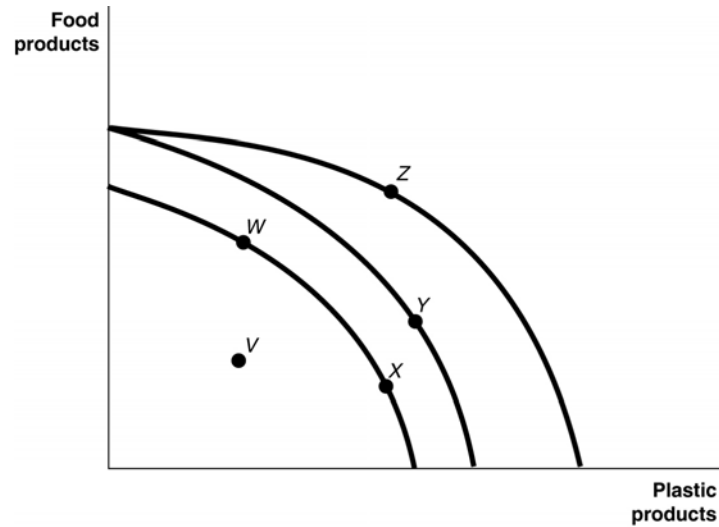
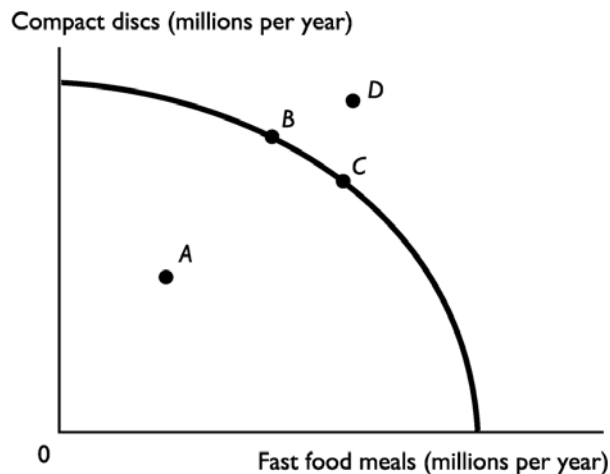


Figure C shows various points on three different production possibilities frontiers for a nation.

19) Refer to Figure C. A movement from Z to Y is most likely the result of

- A) declines in food production technology.
- B) a loss of resources that were productive in plastic production but not food production.
- C) advancements in food production technology.
- D) a general decline in technology.
- E) an increase in the unemployment rate.

19) _____



20) Based on the figure above, which of the following statements is FALSE?

- A) starting from point A, this economy could increase its production of fast food meals, but only if it reduces its production of compact discs.
- B) the opportunity cost of getting another fast food meal is higher at point C than at point B.
- C) in this example, some resources are better at producing compact discs than they are at producing fast food meals.
- D) point A is attainable, but inefficient
- E) resources are fully employed at points B and C.

20) _____

Table K

	You		Your Neighbor	
	Blueberries	Peaches	Blueberries	Peaches
Devote all time to picking blueberries	80	0	36	0
Devote all time to picking peaches	0	20	0	12

Table K depicts how many pounds of blueberries and peaches you and your neighbor can pick in one week.

- 21) *Refer to Table K.* Which of the following statements is true? 21) _____
- A) You have comparative advantage in blueberries.
 - B) Your neighbor has absolute advantage in blueberries.
 - C) You have comparative advantage in peaches.
 - D) Your neighbor's opportunity cost of picking one pound of blueberries is 12 pounds of peaches.
 - E) More than one of the above is correct.
- 22) *Refer to Table K.* Your opportunity cost of picking one pound of blueberries is _____. 22) _____
- A) 1/2 pounds of peaches.
 - B) 20 pounds of peaches.
 - C) 4 pounds of peaches.
 - D) 1/4 pounds of peaches.
 - E) 2 pounds of peaches.
- 23) *Refer to Table K.* Your neighbor's opportunity cost of picking one pound of blueberries is _____. 23) _____
- A) 3 pounds of peaches.
 - B) 1/3 pounds of peaches.
 - C) \$3
 - D) 10 pounds of peaches.
 - E) None of the above
- 24) *Refer to Table K.* Which of the following will be true of the terms of trade that would be acceptable to both you and your neighbor? 24) _____
- A) the terms of trade will fall between 1 pound of peaches for 1/4 pounds of blueberries and 1 pound of peaches for 1/3 pounds of blueberries.
 - B) the terms of trade will fall between 1 pound of peaches for 36 pounds of blueberries and 1 pound of peaches for 80 pounds of blueberries.
 - C) the terms of trade will fall between 1 pound of peaches for 1/4 pounds of blueberries and 1 pound of peaches for 1/2 pounds of blueberries.
 - D) the terms of trade will fall between 1 pound of peaches for 2 pounds of blueberries and 1 pound of peaches for 4 pounds of blueberries.
 - E) the terms of trade will fall between 1 pound of peaches for 3 pounds of blueberries and 1 pound of peaches for 4 pounds of blueberries.

Table K

	You		Your Neighbor	
	Blueberries	Peaches	Blueberries	Peaches
Devote all time to picking blueberries	80	0	24	0
Devote all time to picking peaches	0	20	0	12

Table K depicts how many pounds of blueberries and peaches you and your neighbor can pick in one week.

- 25) *Refer to Table K.* Your opportunity cost of picking one pound of peaches is _____. 25) _____
- A) 1/80 pounds of blueberries.
 B) 1/4 pounds of blueberries.
 C) 4 pounds of blueberries.
 D) 80 pounds of blueberries.
 E) \$80
- 26) *Refer to Table K.* Your neighbor's opportunity cost of picking one pound of blueberries is _____. 26) _____
- A) 1/2 pounds of peaches.
 B) 2 pounds of peaches.
 C) 1/12 pounds of peaches.
 D) 12 pounds of peaches.
 E) \$2
- 27) *Refer to Table K.* Which of the following terms of trade would most likely be acceptable to both you and your neighbor? 27) _____
- A) 1 pound of blueberries for 2 pounds of peaches.
 B) 1 pound of blueberries for 1/3 pounds of peaches.
 C) 1 pound of blueberries for 1/8 pounds of peaches.
 D) 1 pound of blueberries for 1 pound of peaches.
- 28) *Refer to Table K.* Which of the following statements is true? 28) _____
- A) You have comparative advantage in blueberries.
 B) Your neighbor's opportunity cost of picking one pound of blueberries is 12 pounds of peaches.
 C) Your neighbor has absolute advantage in peaches.
 D) You have comparative advantage in peaches.
 E) More than one of the above is correct.
- 29) Specialization and trade according to comparative advantage allows each country to _____. 29) _____
- A) produce beyond its PPF
 B) consume beyond its PPF
 C) Both a and b are correct
 D) None of the above are correct

30) In factor of production markets ("input markets"):

30) _____

- A) households supply goods and services which firms demand.
- B) households supply inputs which firms demand.
- C) households demand resources which firms supply.
- D) firms supply products which households demand.
- E) None of the above

31) Consider a comparative advantage example with two people – Michael and Dwight – doing two activities – typing (pages) and sorting (files).

31) _____

Michael's opportunity cost of typing one page = 4 files sorted, and his opportunity cost of sorting 1 file = 1/4 of a page of typing.

Dwight's opportunity cost of typing one page = 2 files sorted, and his opportunity cost of sorting 1 file = 1/2 of a page of typing.

Which of the following is DEFINATELY TRUE?

- A) Michael has comparative advantage in typing, and Dwight has comparative advantage in filing.
- B) If Michael specializes in filing, Dwight specializes in typing, and they trade with each other (according to mutually beneficial terms of trade), they both can consume beyond their PPFs.
- C) If Michael specializes in typing, Dwight specializes in filing, and they trade with each other (according to mutually beneficial terms of trade), they both can consume beyond their PPFs.
- D) Michael has absolute advantage in filing and Dwight has absolute advantage in typing.
- E) More than one of the above is correct

Figure 2-4

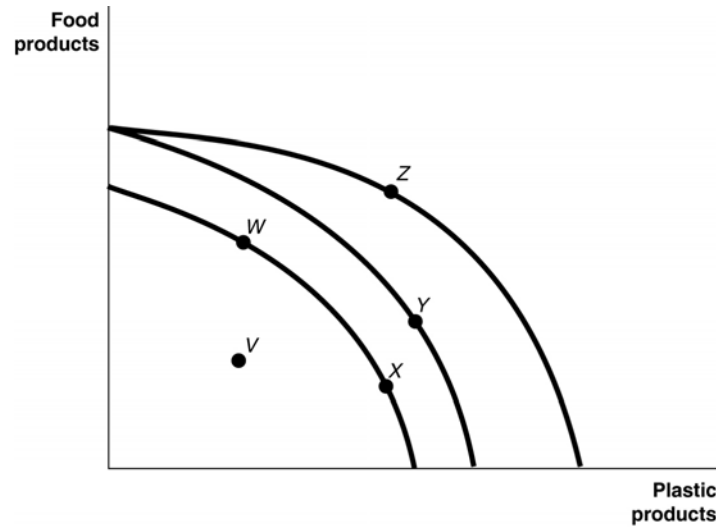


Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

32) *Refer to Figure 2-4.* Consider the following events:

32) _____

- a. a general reduction in technology brought about by a natural disaster
- b. some resources suddenly become idle and are not used in production
- c. a general inefficiency in which technology and resources are not employed in the most productive way

Which of the events listed above could cause a movement from Y to W?

- A) a only
- B) a and c only
- C) c only
- D) a, b, and c
- E) b and c only

33) *Refer to Figure 2-4.* Consider the following events:

33) _____

- a. a general reduction in technology brought about by a natural disaster
- b. some resources suddenly become idle and are not used in production
- c. a general inefficiency in which technology and resources are not employed in the most productive way

Which of the events listed above could cause a movement from W to V?

- A) a only
- B) b and c only
- C) c only
- D) a and c only
- E) a, b, and c

34) Consider a production and trade example with two countries producing two goods. Which of the following statements is TRUE?

34) _____

- A) It is impossible for one country to have absolute advantage in the production of both goods.
- B) If one country has absolute advantage in both goods, then it cannot gain by specializing and trading with the other country.
- C) If one country has absolute advantage in one good, then the other country must have absolute advantage in the other good.
- D) If one country has comparative advantage in one good, then the other country must have comparative advantage in the other good.
- E) More than one of the above is true.

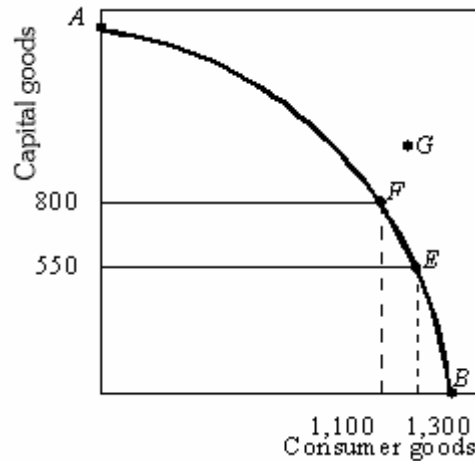


Figure 1.3

35) Refer to Figure 1.3. If society currently produces 1,100 units of consumer goods and 800 units of capital goods, producing 200 more units of consumer goods would result in a (an):

35) _____

- A) decrease in capital goods of 800 units.
- B) decrease in capital goods of 550 units.
- C) increase in capital goods of 550 units.
- D) decrease in capital goods of 250 units.
- E) not possible to calculate from the information provided

36) A society can produce two goods: bread and cookies. The society's production possibilities frontier is negatively sloped and "bowed outward" (concave) from the origin. As this society moves down its production possibilities curve producing more and more units of cookies, the number of loaves of bread that it must give up:

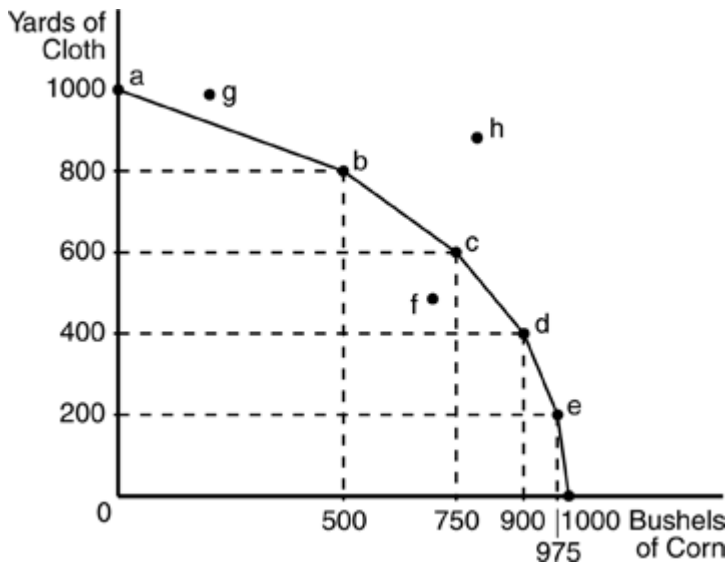
36) _____

- A) decreases.
- B) remains constant.
- C) increases.
- D) could decrease or increase depending on the technology.

37) In factor of production markets ("input markets"):

37) _____

- A) households buy and firms sell.
- B) households and firms both sell.
- C) households sell and firms buy.
- D) households and firms both buy.



- 38) Between points "b" and "c" in the above figure, the opportunity cost of 250 more bushels of corn is 38) _____
- 200 yards of cloth.
 - 250 yards of cloth.
 - \$250
 - 600 yards of cloth.
 - 800 yards of cloth.
- 39) A production possibilities curve with quantities of clothing and food on the axes shows which of the following? 39) _____
- A society cannot have an unlimited amount of each good.
 - For an efficient society, an increase in clothing production will necessitate a decrease in food production.
 - A society will always produce equal amounts of both clothing and food.
- I only
 - II only
 - III only
 - Both I and II
 - I, II, and III
- 40) The production possibilities frontier does not shift when: 40) _____
- the economy acquires more natural resources.
 - natural disasters destroy roads and factories.
 - the economy produces more of one good and less of the other good.
 - there is a technological advancement in production.

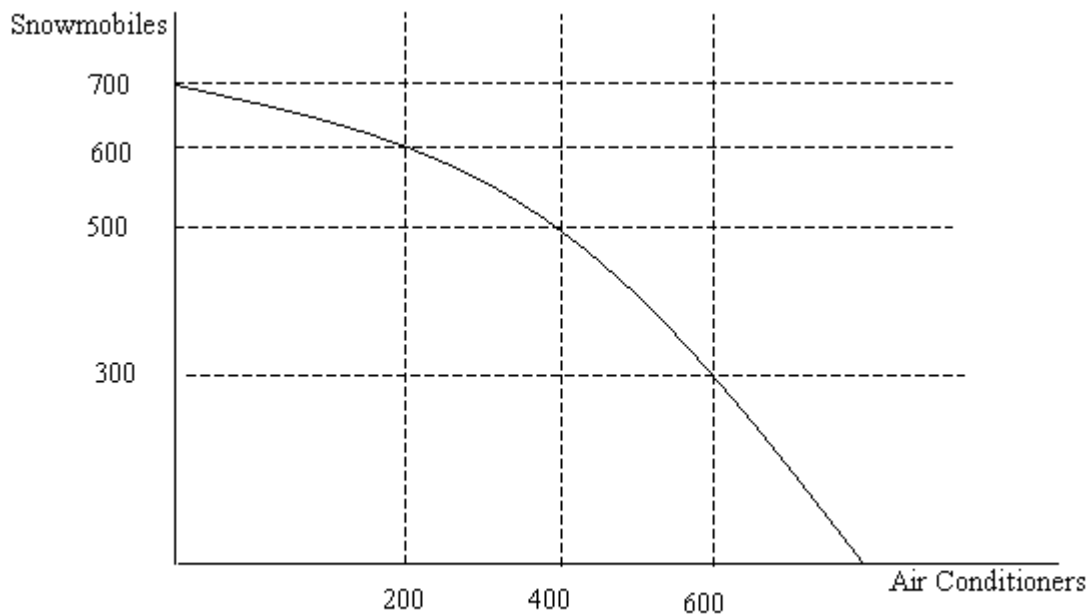


Figure 1.2

41) Sotoland is a small country that produces two types of products, air conditioners and snowmobiles. Its production possibilities frontier is illustrated in Figure 1.2. Which combination of air conditioners and snowmobiles is attainable and efficient?

41) _____

- A) 200 air conditioners and 500 snowmobiles
- B) 600 air conditioners and 0 snowmobiles
- C) 600 air conditioners and 300 snowmobiles
- D) 200 air conditioners and 800 snowmobiles

42) Sotoland is a small country that produces two types of products, air conditioners and snowmobiles. Its production possibilities frontier is illustrated in Figure 1.2. Which combination of air conditioners and snowmobiles is attainable and inefficient?

42) _____

- A) 0 air conditioners and 800 snowmobiles
- B) 600 air conditioners and 300 snowmobiles
- C) 400 air conditioners and 500 snowmobiles
- D) 200 air conditioners and 500 snowmobiles

Table K

	You		Your Neighbor	
	Blueberries	Peaches	Blueberries	Peaches
Devote all time to picking blueberries	1,200	0	600	0
Devote all time to picking peaches	0	400	0	300

Table K depicts how many pounds of blueberries and peaches you and your neighbor can pick in one week.

- 43) *Refer to Table K.* Which of the following statements is true? 43) _____
- A) Your neighbor has absolute advantage in blueberries.
 - B) Your neighbor's opportunity cost of picking one pound of peaches is 1/2 pounds of blueberries.
 - C) You have comparative advantage in blueberries.
 - D) You have comparative advantage in peaches.
 - E) More than one of the above is correct.
- 44) *Refer to Table K.* Your opportunity cost of picking one pound of blueberries is _____. 44) _____
- A) 1/3 pounds of peaches.
 - B) 3 pounds of peaches.
 - C) 1/4 pounds of peaches.
 - D) 400 pounds of peaches.
 - E) None of the above
- 45) *Refer to Table K.* Your neighbor's opportunity cost of picking one pound of blueberries is _____. 45) _____
- A) 2 pounds of peaches.
 - B) 1/2 pounds of peaches.
 - C) \$300
 - D) 300 pounds of peaches.
 - E) None of the above
- 46) *Refer to Table K.* Which of the following will be true of the terms of trade that would be acceptable to both you and your neighbor? 46) _____
- A) the terms of trade will fall between 1 pound of blueberries for 2 pounds of peaches and 1 pound of blueberries from 3 pounds of peaches.
 - B) the terms of trade will fall between 1 pound of blueberries for 1/3 pounds of peaches and 1 pound of blueberries from 1/2 pounds of peaches.
 - C) the terms of trade will fall between 1 pound of blueberries for 10 pounds of peaches and 1 pound of blueberries from 20 pounds of peaches.

47) *Refer to Table K.* Suppose that initially (without specialization and trade) you produce and consume 750 pounds of blueberries and 150 pounds of peaches, and your neighbor produces and consumes 300 pounds of blueberries and 150 pounds of peaches. Now you and your neighbor completely specialize in producing the item for which you have a comparative advantage. After specialization, 150 pounds of peaches are traded for 350 pounds of blueberries. This specialization and trade results in you consuming ____ additional pounds of blueberries, and your neighbor consuming ____ additional pounds of blueberries.

- A) 100 ; 50 B) 75 ; 75 C) 850 ; 0 D) 35 ; 85 E) 0 ; 350

47) _____

48) *Refer to Table K.* If you and your neighbor specialize and trade according to comparative advantage, which of the following is possible?

- A) you and your neighbor can both produce beyond your PPFs
 B) you and your neighbor can both consume beyond your PPFs
 C) Both of the above are possible

48) _____

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

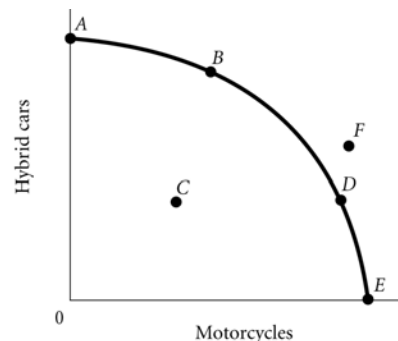
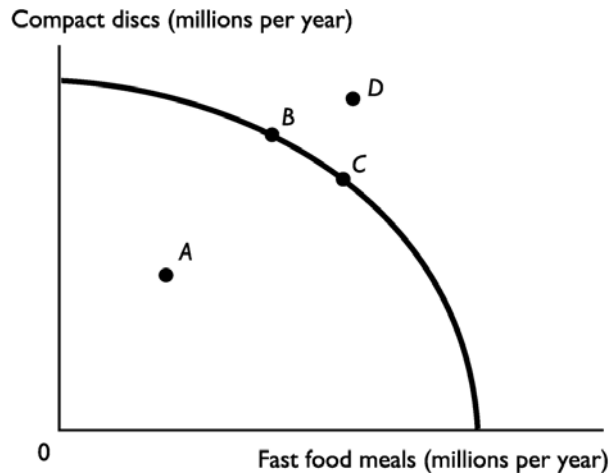


Figure 2.4

49) According to Figure 2.4, which point cannot be produced with the current state of technology?

- A) A B) B C) C D) F

49) _____



- 50) Based on the figure above, which of the following statements is **FALSE**?
- A) some resources are likely unemployed at point A.
 - B) starting from point B, this economy could increase its production of fast food meals, but only if it reduces its production of compact discs.
 - C) in this example, some resources are better at producing compact discs than they are at producing fast food meals.
 - D) the opportunity cost of getting another fast food meal is higher at point B than at point C.
 - E) point B is both attainable and efficient

50) _____

Table K

	You		Your Neighbor	
	Blueberries	Peaches	Blueberries	Peaches
Devote all time to picking blueberries	120	0	60	0
Devote all time to picking peaches	0	40	0	30

Table K depicts how many pounds of blueberries and peaches you and your neighbor can pick in one week.

- 51) *Refer to Table K.* Which of the following statements is true?
- A) Your neighbor has absolute advantage in blueberries.
 - B) You have comparative advantage in blueberries.
 - C) Your neighbor's opportunity cost of picking one pound of peaches is 1/2 pounds of blueberries.
 - D) You have comparative advantage in peaches.
 - E) More than one of the above is correct.
- 52) *Refer to Table K.* Your opportunity cost of picking one pound of blueberries is _____.
- A) 400 pounds of peaches.
 - B) 1/4 pounds of peaches.
 - C) 3 pounds of peaches.
 - D) 1/3 pounds of peaches.
 - E) None of the above

51) _____

52) _____

- 53) *Refer to Table K.* Which of the following will be true of the terms of trade that would be acceptable to both you and your neighbor? 53) _____
- A) the terms of trade will fall between 1 pound of peaches for 1/3 pounds of blueberries and 1 pound of peaches for 1/2 pounds of blueberries.
 - B) the terms of trade will fall between 1 pound of peaches for 2 pounds of blueberries and 1 pound of peaches for 3 pounds of blueberries.
 - C) the terms of trade will fall between 1 pound of peaches for 60 pounds of blueberries and 1 pound of peaches for 120 pounds of blueberries.
- 54) *Refer to Table K.* Suppose that initially (without specialization and trade) you produce and consume 75 pounds of blueberries and 15 pounds of peaches, and your neighbor produces and consumes 30 pounds of blueberries and 15 pounds of peaches. Now you and your neighbor completely specialize in producing the item for which you have a comparative advantage. After specialization, 15 pounds of peaches are traded for 35 pounds of blueberries. This specialization and trade results in you consuming ____ additional pounds of blueberries and ____ additional pounds of peaches. 54) _____
- A) 35 ; 15
 - B) 40 ; 15
 - C) 10 ; 0
 - D) 35 ; 0
 - E) 15 ; 40
- 55) *Refer to Table K.* If you and your neighbor specialize and trade according to comparative advantage, which of the following is possible? 55) _____
- A) you and your neighbor can both produce beyond your PPFs
 - B) you and your neighbor can both consume beyond your PPFs
 - C) Both of the above are possible
- 56) Consider the market for labor. _____ sells their labor in the _____ market. 56) _____
- A) Firms ; product
 - B) Firms ; factors of production
 - C) Households ; product
 - D) Households ; factors of production

Answer Key

Testname: 201 CHAPTER 2 OLD EXAM QUESTIONS

- 1) E
- 2) A
- 3) B
- 4) C
- 5) E
- 6) C
- 7) C
- 8) B
- 9) A
- 10) A
- 11) B
- 12) B
- 13) A
- 14) C
- 15) B
- 16) E
- 17) C
- 18) B
- 19) B
- 20) A
- 21) A
- 22) D
- 23) B
- 24) E
- 25) C
- 26) A
- 27) B
- 28) A
- 29) B
- 30) B
- 31) B
- 32) A
- 33) B
- 34) D
- 35) D
- 36) C
- 37) C
- 38) A
- 39) D
- 40) C
- 41) C
- 42) D
- 43) C
- 44) A
- 45) B
- 46) B
- 47) A
- 48) B
- 49) D
- 50) D

Answer Key

Testname: 201 CHAPTER 2 OLD EXAM QUESTIONS

- 51) B
- 52) D
- 53) B
- 54) C
- 55) B
- 56) D