Practice Problems for Quiz 1

ECO 1110 Current Economic Problems

1. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. Also, assume that Germany has an absolute advantage in both fish and cars. If these two countries specialize and trade to maximize the benefits of specialization and trade, then

    a. the two countries' combined output of both goods will be higher than it would be in the absence of trade.

    b. Greece will produce more fish than it would produce in the absence of trade.

    c. Germany will produce more cars than it would produce in the absence of trade.

    d. **All of the above are correct.**

2. Jake and Sandra are two woodworkers who both make tables and chairs. In one month, Jake can make 4 tables or 20 chairs, while Sandra can make 6 tables or 18 chairs. Given this, we know that

    a. **Jake has an absolute advantage in chairs.**

    b. Jake has a comparative advantage in tables.

    c. Sandra has an absolute advantage in chairs.

    d. Sandra has a comparative advantage in chairs.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

3. Assume that Zimbabwe and Portugal each has 180 machine minutes available. If each country divides its time equally between the production of toothbrushes and hairbrushes, then total production is

    a. 24 toothbrushes and 12 hairbrushes.

    b. **48 toothbrushes and 24 hairbrushes.**

    c. 96 toothbrushes and 48 hairbrushes.

    d. 720 toothbrushes and 1440 hairbrushes.

4. **Water is necessary for life. Why is then water less expensive than a diamond?**

   a. **Because the water is plentiful, the marginal benefit of an additional cup is smaller than the marginal benefit of an extra diamond.**

   b. Because the water is plentiful, the marginal benefit of an additional cup is higher than the marginal benefit of an extra diamond.

   c. Because in the case of water, principles of economics do not work.

   d. Because diamonds are rare, and the marginal benefit of an additional cup is higher than the marginal benefit of an extra diamond.

5. **Which of the following is not considered a market failure?**

   a. A person smoking in a crowded area without any regard for cost on others.

   b. **An entrepreneur earning a lot of income because she is producing more than others.**

   c. An unequal distribution of income due to the rent-seeking behavior of an organization.

   d. OPEC cartel holding a lot of power on oil production and thus influences the market.

6. **In one of the lectures, we talked about efficiency vs equality. Which of the following government activities is motivated by a concern about efficiency?**

   a. Providing some poor people with vouchers that can be used to buy food.

   b. Providing social security for citizens.

   c. **Breaking up Standard Oil (which once owned 90 percent of all oil refineries) into several smaller companies.**

   d. Imposing higher personal income tax rates on people with higher incomes.

7. **If Anisa knows that she is going to be paid a fixed amount in social security(No matter what) when she is old,**

   a. **It incentivizes her to save less today.**

   b. It incentivizes her to save more today.

   c. It does not have any effect on her incentive to save her income today.

   d. She just does not care.

8. **All the points on a PPF(Production Possibilities Frontier)**

   a. are inefficient.

   b. are not affordable.

   c. **are efficient.**

   d. None of the above.

9. **Germany would decide to trade a product with Congo based on**

   a. her absolute advantage in making the product.

   b. **her comparative advantage in making the product.**

   c. party people vote in an election.

d. her responsibility towards the world.

10. England and Scotland both produce scones and sweaters. Suppose that an English worker can produce 50 scones per hour or 1 sweater per hour. Suppose that a Scottish worker can produce 40 scones per hour or 2 sweaters per hour. Which country has a comparative advantage in making scones?

a. **England.**

b. Scotland.

c. Both.

d. Neither of both.

11. We learned that "Rational People Think at the Margin". Assume that Leslie is a rational human being living in NYC. She has already spent \$150 to watch Serena Williams play in Florida. The day before the match, there is a snowstorm in NYC and her health is at risk. What would she do in this case?

a. She will go to Florida as she has already spent \$150 on the ticket.

b. She will go to Florida as it is her dream to watch Serena play.

c. **She will stay in NYC as the cost of going to Florida(Health Risk) is way higher than the benefit of watching Serena play.**

d. None of the above.

12. Harvey Specter is considered the best closure in NYC who went to Harvard. He is of course capable of typing his own reports and lawsuits and yet he hires a paralegal to do so. Why would he do that?

a. **The opportunity cost of typing his own reports is too high.**

b. The opportunity cost of typing his own reports is too low.

c. He just hates typing.

d. Like Mike Ross he never actually went to Harvard.

13. Pat and Kris are roommates. They spend most of their time studying (of course), but they leave some time for their favorite activities: making pizza and brewing root beer. Pat takes 4 hours to brew a gallon of root beer and 2 hours to make a pizza. Kris takes 6 hours to brew a gallon of root beer and 4 hours to make a pizza. What is Pat's opportunity cost of making a pizza in terms of beer?

a. 1 pizza for 2 gallon of root beer.

b. **1 pizza for 0.5 gallon of root beer.**

c. 1 pizza for 4 gallon of root beer.

d. 1 pizza for 6 gallon of root beer.