

QUIZ 2

VERSION 1

1) Suppose that 1 unit of labour can produce either 5 units of wool or 2 pineapples. What is the opportunity cost of producing 1 pineapple?

- A) 2 units of wool B) zero C) $5/2$ units of wool D) 5 units of wool

2) The production possibilities boundary depicts the fact that

- A) when a society combines its resources efficiently, it cannot produce more of one good without producing less of the other good.
 B) when a society combines its resources efficiently, it cannot produce more of one good without producing more of the other good.
 C) the demand for goods always exceeds the supply.
 D) all points inside the curve are preferred to all points on the curve.

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.

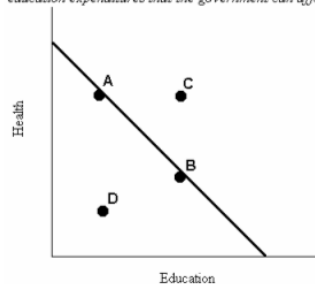


FIGURE 1-1

3) If a production possibilities boundary is drawn as a straight line (as in Figure 1-1) it would indicate

- A) increasing opportunity cost of producing more of a good.
 B) decreasing opportunity cost of producing more of a good.
 C) constant opportunity cost of producing more of a good.
 D) the use of the scarce resources in an economy.

4) Suppose a scientific breakthrough led to a lower-cost method of producing battery-operated cars in Canada. The likely effect would be to move Canada's current production

- A) possibility boundary outward.
 B) to a point beyond its production possibility boundary.
 C) possibility boundary inward.
 D) possibilities ahead of the United States' possibilities.

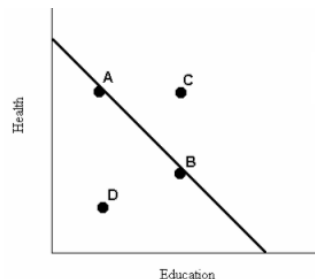


FIGURE 1

5) According to Figure 1, the levels of health and education expenditures at point C

- A) are not attainable from the given budget.
 B) could be achieved if the prices of health and/or education increased.
 C) are equal to those of point A and point B.
 D) are more cost-effective than those at points A, B, and D.

The diagram below shows two production possibilities boundaries for Country X.

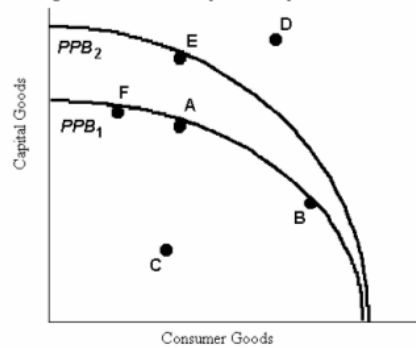


FIGURE 1-2

6) Consider Figure 1-2. If Country X is constrained by the production possibility boundary PPB_1 , and it is currently producing the combination of goods indicated at point C, then it could

- A) not produce more of either good.
- B) produce more capital goods but no more consumer goods.
- C) produce more consumer goods but no more capital goods.
- D) produce more of both capital and consumer goods.

7) Consider Figure 1-2. If Country X, constrained by the production possibility boundary PPB_1 , is currently producing the combination of goods indicated at point A, it can produce more capital goods by moving to point

- A) B.
- B) E.
- C) F.
- D) C.
- E) D.

8) The existence of absolute advantage

- A) refers to a situation where one country can produce one unit of a given product with fewer resources than the other country.
- B) is not physically possible.
- C) fosters the self-sufficiency of the two nations.
- D) refers to a situation in which one country can produce one unit of all goods with fewer resources than can another country.

9) The gains from trade when two countries have different opportunity costs for wheat and coffee are realized when

- A) production possibility boundaries shift inward.
- B) the two countries continue to produce the same quantities of wheat and coffee.
- C) resources are reallocated within the two countries such that each specializes in the production of the good in which it has a comparative advantage.
- D) each country has an absolute advantage in one of the two commodities.

The following production possibilities schedule shows the quantities of wheat and rice that can be produced in Canada and India with one unit of equivalent resources.

	Wheat (bushels)	Rice (bushels)
Canada	13	5
India	6	13

TABLE 1

10) In Table 1, India has an absolute advantage in the production of

- A) rice.
- B) both rice and wheat.
- C) neither rice nor wheat.
- D) wheat

QUIZ 2

VERSION 2

1) Katie and Hugh are producing pies and jars of pickles. Katie can produce either 200 jars of pickles or 100 pies per month. Hugh can produce either 800 jars of pickles or 200 pies per month.

- A) Hugh's opportunity cost of producing 1 jar of pickles is 4 pies.
- B) Hugh's and Katie's opportunity costs of producing are the same.
- C) Hugh's opportunity cost of producing 1 pie is $\frac{1}{4}$ jar of pickles.
- D) Katie's opportunity cost of producing 1 jar of pickles is $\frac{1}{2}$ of a pie.
- E) Katie's opportunity cost of producing 1 jar of pickles is 2 pies.

2) Consider a downward-sloping production possibility boundary (PPB) showing the possible combinations of military goods and civilian goods that a country can produce. Suppose that the country is currently at a point on the PPB. If the production of military goods is increased, the production of civilian goods will necessarily

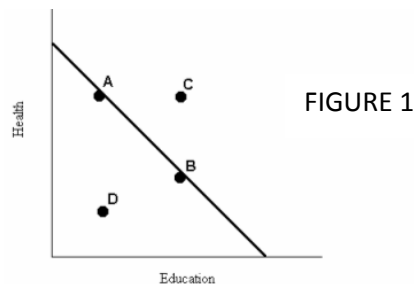
- A) increase at a decreasing rate.
- B) remain the same.
- C) decrease.
- D) increase at an increasing rate.
- E) expand outward.

3) On a diagram of a production possibility boundary, the concept of scarcity is illustrated by the

- A) area within the boundary.
- B) negative slope of the boundary.
- C) distance from the origin to the boundary.
- D) points on the boundary.
- E) unattainable points outside the boundary.

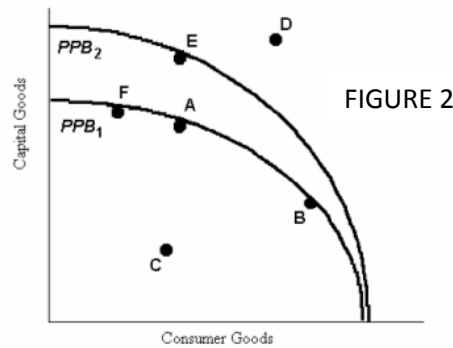
4) Suppose fires destroy many millions of hectares of commercially valuable Canadian forest. The effect on the Canadian economy would be best illustrated by a _____ the production possibility boundary.

- A) point beyond
- B) shift outward of
- C) movement along
- D) inward shift of
- E) movement inside



5) In Figure 1-1, if the government were currently spending on health and education as indicated by point B, a move to point A would involve

- A) less spending in total.
- B) less spending on health.
- C) less spending on education.
- D) more spending on education.
- E) zero opportunity cost.



- 6) In Figure 2, if Country X is currently producing the outputs indicated by point A, it could move to point B if
- some resources were switched from the consumption goods industries to the capital goods industries.
 - the cost of producing consumer goods were to increase.
 - some resources were switched from the capital goods industries to the consumption goods industries.
 - the cost of producing capital goods were to increase.
 - Country X is no longer able to produce the quantity of capital goods at point A.
- 7) Consider Figure 2. A shift of the production possibility boundary from PPB_1 to PPB_2 implies
- that if point E is the new choice of outputs, productivity has increased in the consumption goods industries.
 - that technology in the consumption goods industry has improved.
 - an inevitable decrease in total output.
 - a movement from full employment to some unemployment.
 - that technology in the capital goods industries has improved.
- 8) One region is said to have an absolute advantage over another region in the production of good X when
- the opportunity cost of one unit of X is lower in the first region than in the second region.
 - the first region has a more productive labour force than the second.
 - the first region has a larger supply of the raw materials required to produce good X.
 - there is no demand for good X in the second region.
 - an equal quantity of resources can produce more of good X in the first region than in the second region.
- 9) If two countries each produce wool and cotton, we know that the country with the lower opportunity cost for cotton (in terms of wool) will also have
- an absolute advantage in the production of cotton.
 - a comparative advantage in the production of cotton.
 - an absolute advantage in the production of both wool and cotton.
 - a comparative advantage in the production of wool.

This production possibilities schedule shows how much cotton and cocoa can be produced in Peru and Brazil with one unit of equivalent resources.

	Cotton (bales)	Cocoa Beans (bushels)
Peru	2	4
Brazil	1	6

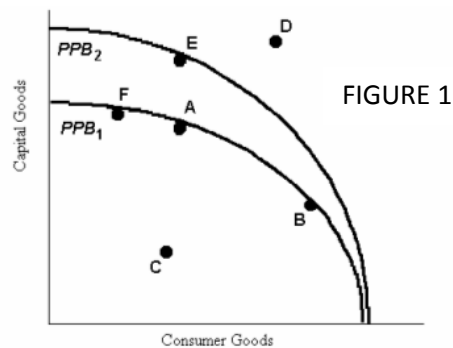
TABLE 33-3

- 10) In Table 33-3, compared with Peru, Brazil has
- an absolute and a comparative advantage in the production of cocoa beans.
 - an absolute and a comparative advantage in the production of cotton.
 - an absolute, but not a comparative, advantage in the production of cocoa beans
 - an absolute advantage in the production of cotton.

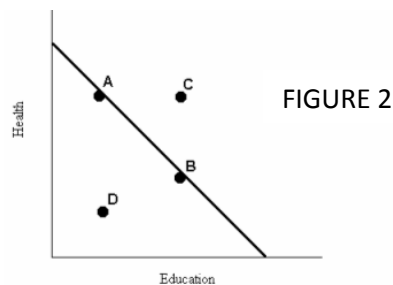
QUIZ 2

VERSION 3

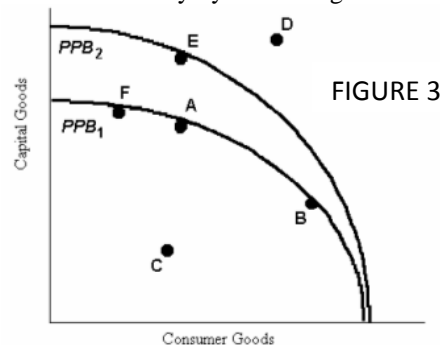
- 1) The opportunity cost of producing good A is defined as
 - A) the retail price of good A.
 - B) the cheapest method of producing good A.
 - C) the money cost of the factors of production used in good A.
 - D) the cost of having to get by using something else in place of good A.
 - E) what must be sacrificed of other goods to get an additional unit of A.



- 2) The fact that the production possibilities boundary is drawn concave to the origin (as in Figure 1-2) reflects the
 - A) scarcity of resources in an economy.
 - B) increasing opportunity cost of producing more of a good.
 - C) constant opportunity cost of producing more of a good.
 - D) decreasing opportunity cost of producing more of a good.
- 3) A straight-line production possibility boundary differs from a concave boundary in which of the following ways?
 - A) The straight-line boundary illustrates constant opportunity costs, whereas the concave boundary illustrates increasing opportunity costs.
 - B) The concave boundary illustrates constant opportunity costs, whereas the straight-line boundary illustrates decreasing opportunity costs.
 - C) A straight-line boundary is associated with a command economy, whereas a concave boundary is associated with a free-market economy.
 - D) The straight-line boundary shows physical outputs, whereas the concave boundary shows money values of outputs.
- 4) During the nineteenth and early twentieth century, millions of people immigrated to western Canada. The effect on the Canadian economy was to
 - A) shift its production possibility boundary inward.
 - B) shift its production possibility boundary outward.
 - C) move it inside its production possibility boundary.
 - D) move it along an unchanged production possibility boundary.



- 5) In Figure 2, suppose the government is currently spending as indicated by point D. In this case,
- A) the prices of education and health care have increased beyond the government's ability to pay.
 - B) more education expenditures can be achieved only by sacrificing some health expenditures.
 - C) the government is not spending its total budget.
 - D) more health expenditures can be achieved only by sacrificing some education expenditures.



- 6) Consider Figure 3. If Country X were producing the outputs indicated by point C,
- A) the opportunity cost of moving to point A is zero.
 - B) the opportunity cost of moving to point B is to give up some consumption goods.
 - C) the opportunity cost of moving to point A is to give up some capital goods.
 - D) it is not possible to move to any point on PPB_1 or PPB_2 without technological progress.
- 7) Consider Figure 3. Economic growth is illustrated with production possibilities boundaries by a
- A) movement from a point inside the boundary such as C to the boundary.
 - B) point like D outside the boundary.
 - C) movement between points on the boundary.
 - D) movement of the boundary outward to the right, for example from PPB_1 to PPB_2 .
- 8) Comparative advantage refers to the
- A) ability of one region to produce a commodity with fewer total inputs than another region.
 - B) ability of one region to produce a commodity at a lesser opportunity cost than another region.
 - C) terms of trade index.
 - D) ability of one region to produce a commodity with less labour input than another region.
- 9) If two countries each produce wool and cotton, we know that the country with the higher opportunity cost for cotton (in terms of wool) will also have
- A) a comparative disadvantage in the production of cotton.
 - B) an absolute advantage in the production of wool.
 - C) an absolute advantage in the production of both wool and cotton.
 - D) a comparative disadvantage in the production of wool.

The following production possibilities schedule shows the quantities of soybeans and oil that can be produced in Canada and Mexico with one unit of equivalent resources.

	Soybeans (bushels)	Oil (barrels)
Canada	60	10
Mexico	24	8

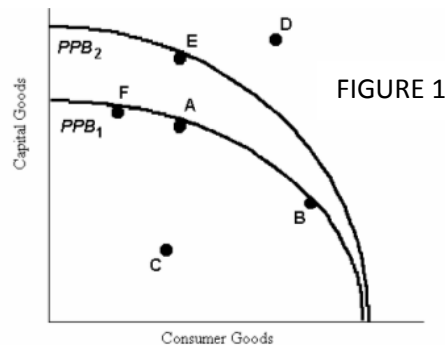
TABLE 1

- 10) In Table1, the opportunity cost of a barrel of oil in Canada is
- A) 16.67 bushels of soybeans.
 - B) 6 bushels of soybeans.
 - C) 2.5 bushels of soybeans.
 - D) 1.2 barrels of oil.

QUIZ 2

VERSION 4

- 1) The opportunity cost of going to college for four years is
 - A) the least valued alternative one forfeits to go to university.
 - B) the cost of tuition and books and four years of lost wages from employment.
 - C) the cost of tuition, residence fees and books.
 - D) equal to the wage rate a person will earn after graduation.
 - E) zero.
- 2) If there is always a two-for-one trade-off between the production of goods X and Y, then the production possibilities boundary for X and Y is
 - A) a downward-sloping straight line.
 - B) a downward-sloping curve concave to the origin.
 - C) a downward-sloping straight line that is broken at one point.
 - D) circular.
 - E) a downward-sloping curve convex to the origin.
- 3) On a diagram of a production possibility boundary, the concept of opportunity cost is illustrated by the
 - A) negative slope of the boundary.
 - B) boundary being concave to the origin.
 - C) area bounded by the two axes and the boundary.
 - D) unattainable points outside the boundary.
 - E) distance from the origin to the boundary.
- 4) A move from inside the production possibility boundary to the boundary itself would be caused by
 - A) an improvement in the government's ability to control inflation.
 - B) the employment of previously unemployed resources.
 - C) technological progress.
 - D) an increase in the labour supply.
 - E) a reallocation of resources from military to civilian goods.



- 5) Consider Figure 1. If Country X, constrained by the production possibility boundary PPB_1 , is producing the combination of goods indicated at point F, it can produce more consumer goods by moving to one of the points
 - A) A, B, C, D, and E.
 - B) A, B, and C.
 - C) A and B, but not C.
 - D) D and E.
 - E) A and E.
- 6) At point B in Figure 1,
 - A) the price of capital goods is higher than the price of consumption goods.
 - B) the opportunity cost of producing an extra unit of capital goods is higher than at point A.
 - C) Country X is producing too many consumption goods and too few capital goods.
 - D) the opportunity cost of producing an extra unit of consumption goods is higher than at point A.
 - E) the price of consumption goods is equal to the price of capital goods.

- 7) In Figure 1, Country X could achieve the outputs indicated by point D if
- A) the prices of capital goods and consumption goods fell.
 - B) the given resources were fully employed.
 - C) the given resources were more efficiently employed.
 - D) improvements in technology occurred in the capital goods industry or in both industries at once.
 - E) firms reduced output of capital goods.
- 8) The achievement of gains from trade requires
- A) both absolute and comparative advantage.
 - B) comparative advantage.
 - C) absolute advantage.
 - D) tariffs.
 - E) closed economies.
- 9) If neither country has an absolute advantage in the production of rice,
- A) rice will still be traded as long as one of the countries has a comparative advantage in its production.
 - B) neither country can possibly have a comparative advantage in the production of rice.
 - C) then rice should not be produced.
 - D) the opportunity cost of producing rice must be identical in the two countries.
 - E) there is no possibility that either country will import rice from the other.

The following production possibilities schedule shows the quantities of soybeans and oil that can be produced in Canada and Mexico with one unit of equivalent resources.

	Soybeans (bushels)	Oil (barrels)
Canada	60	10
Mexico	24	8

TABLE 1

- 10) In Table 1, Canada has an absolute advantage in the production of
- A) wheat
 - B) oil.
 - C) both soybeans and oil.
 - D) soybeans.
 - E) neither soybeans nor oil.

QUIZ 2 VERSION 1
Answer Section

- 1) C
- 2) A
- 3) C
- 4) A
- 5) A
- 6) D
- 7) C
- 8) A
- 9) C
- 10) A

QUIZ 2 VERSION 2
Answer Section

- 1) D
- 2) C
- 3) E
- 4) D
- 5) C
- 6) C
- 7) E
- 8) E
- 9) B
- 10) A

QUIZ 2 VERSION 3
Answer Section

- 1) E
- 2) B
- 3) A
- 4) B
- 5) C
- 6) A
- 7) D
- 8) B
- 9) A
- 10) B

QUIZ 2 VERSION 4
Answer Section

- 1) B
- 2) A
- 3) A
- 4) B
- 5) B
- 6) D
- 7) D
- 8) B
- 9) A
- 10) C