University of Lethbridge - Department of Economics
ECON 1010 - Introduction to Microeconomics
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Lab #2

Chapter 2 — The Economic Problem

1) Which one of the following concepts is *not* illustrated by a production possibilities frontier?
A) opportunity cost
B) monetary exchange
C) attainable and unattainable points
D) scarcity
E) the tradeoff between producing one good versus another

Answer: B
User1:

Use the figure below to answer the following question(s).

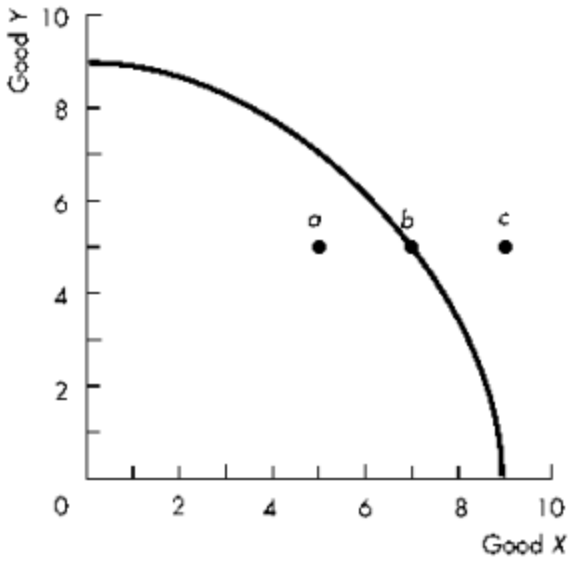

Figure 2.1

2) Complete the following sentence. In Figure 2.1,
A) movement from *c* to *b* would require a technological improvement.
B) some resources must be unemployed at point *c*.
C) point *b* is superior to point *a*.
D) the concept of decreasing opportunity cost is illustrated.
E) movement from *a* to *b* would require a technological improvement.

Answer: C
User1:

3) If Sam is producing at a point inside his production possibilities frontier, then he
A) is fully using all his resources.
B) can increase production of both goods with no increase in resources.
C) must be doing the best he can with limited resources.
D) has a high opportunity cost of moving from this point.
E) is unaffected by costs and technology.

Answer: B
User1:

4) If Sam is producing at a point on his production possibilities frontier, then he
A) will be unable to gain from trade.
B) can increase the production of one good only by decreasing the production of the other.
C) is unaffected by costs and technology, since he is fully using his resources.
D) cannot produce any more of either good.
E) is not subject to scarcity.

Answer: B
User1:

5) A production possibilities frontier will be negatively sloped because
A) some resources are not fully utilized.
B) there is not enough capital in the economy.
C) of more consumption.
D) of opportunity costs.
E) more goods are purchased as price falls.

Answer: D
User1:

6) The concept of opportunity cost
A) is measured by the amount of the monetary costs of an activity.
B) implies that because productive resources are scarce, we must give up some of one good in order to acquire more of another.
C) implies that a double coincidence of wants must be present for exchange to take place.
D) explains that goods are swapped for goods.
E) implies that when a person is more efficient in the production of one good, he/she should produce that good and exchange it for some good that he/she is relatively less efficient at producing.

Answer: B
User1:

7) On a diagram of a production possibilities frontier, opportunity cost is represented by
A) a point on the horizontal axis.
B) a point on the vertical axis.
C) the slope of the production possibilities frontier.
D) the x-axis intercept.
E) a ray through the origin.

Answer: C
User1:

8) The bowed-out (concave) shape of a production possibilities frontier
A) is due to the equal usefulness of resources in all activities.
B) reflects the existence of decreasing opportunity cost.
C) reflects the existence of increasing opportunity cost.
D) is due to capital accumulation.
E) is due to technological change.

Answer: C
User1: Study Guide

9) Production efficiency is achieved when
A) more of one good cannot be produced without producing less of another.
B) there are no more tradeoffs.
C) resources are not equally productive in all activities.
D) the production possibilities frontier shifts outward at an even pace.
E) all resources are equally productive in all activities.

Answer: A
User1:

10) If additional units of any good could be produced at a *constant* opportunity cost, the production possibilities frontier would be
A) negatively sloped.
B) bowed inward (convex).
C) linear.
D) bowed outward (concave).
E) positively sloped.

Answer: C
User1:

Use the figure below to answer the following question(s).

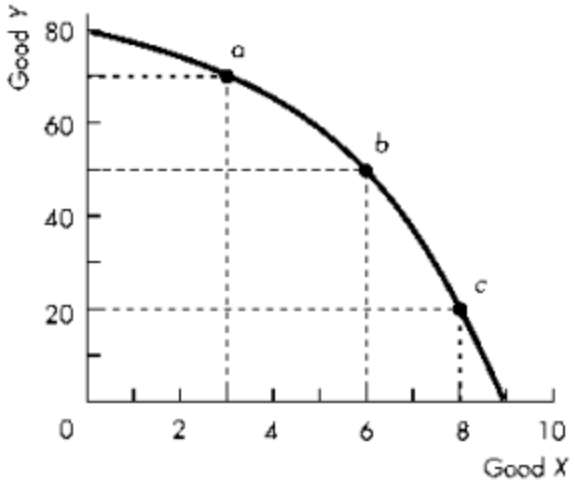

Figure 2.2

11) Refer to the production possibilities frontier in Figure 2.2. If 6 units of *X* are currently being produced, then
A) 60 units of *Y* can be produced with some resources *not* fully utilized.
B) 40 units of *Y* cannot be produced unless production of *X* is decreased.
C) 50 units of *Y* can be produced if all resources are fully utilized.
D) 40 units of *Y* cannot be produced unless production of *X* is increased.
E) 50 units of *Y* must be produced, regardless of resource utilization.

Answer: C
User1:

12) Refer to the production possibilities frontier in Figure 2.2. If 3 units of *X* are currently being produced, the opportunity cost of producing 3 more units
A) is 20 units of *Y*.
B) cannot be determined from the diagram.
C) is 10 units of *Y*.
D) is 30 units of *Y*.
E) is 3 units of *X*.

Answer: A
User1:

13) Refer to the production possibilities frontier in Figure 2.2. If 70 units of *Y* are currently being produced, the opportunity cost of increasing production of *Y* to 80 units is
A) 3 units of *X*.
B) 80 units of *Y*.
C) 1 unit of *X*.
D) 10 units of *Y*.
E) 2 units of *X*.

Answer: A
User1:

Use the figure below to answer the following question(s).

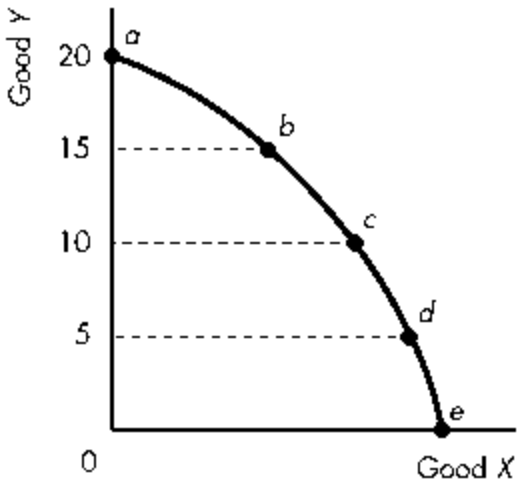

Figure 2.3

14) Figure 2.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *b* to point *c*,
A) it will be necessary to give up some of good *X* in order to obtain more of good *Y*.
B) she can accomplish this without any opportunity cost.
C) it will be necessary to increase the accumulation of capital.
D) it will be necessary to improve technology.
E) it will be necessary to give up some of good *Y* in order to obtain more of good *X*.

Answer: E
User1:

15) Refer to the production possibilities frontier in Figure 2.3. Which one of the following movements requires the largest opportunity cost of increased *Y*?
A) *d* to *c*
B) *b* to *a*
C) *e* to *d*
D) *c* to *b*
E) The opportunity cost is the same in each case.

Answer: B
User1:

Use the table below to answer the following question(s).

Table 2.2 Production Possibilities

Possibility	Units of Butter	Units of Guns
a	8	0
b	6	1
c	0	3

16) Refer to Table 2.2. In moving from combination *b* to combination *c*, the opportunity cost of producing *one* additional unit of gun is
A) 2 units of butter.
B) 1/2 unit of butter.
C) 1/6 unit of butter.
D) 3 units of butter.
E) 6 units of butter.

Answer: D
User1:

Use the table below to answer the following question(s).

Consider the following production possibilities for a Student, for the typical week:

Possibility	Beer	Pizza
a	14 cases	0
b	12 cases	6
c	9 cases	11
d	5 cases	14
e	0 cases	15

17) Complete the following sentence. The production possiblility frontier in the table above shows
A) constant opportunity cost.
B) decreasing opportunity cost.
C) learning-by-doing.
D) under-utilization of resources.
E) increasing opportunity cost.

Answer: E
User1:

18) Complete the following sentence. A marginal cost curve
A) shows that as more of a good is produced, opportunity costs of producing another unit decrease.
B) is upward sloping.
C) is bowed inward so that its slope can become negative.
D) is downward sloping.
E) can be either upward or downward sloping.

Answer: B
User1:

19) Complete the following sentence. As you consume more and more of a good,
A) the marginal benefit decreases.
B) the marginal benefit increases.
C) the price of the good falls.
D) the marginal benefit increases or decreases depending on where you are on the production possibilities frontier.
E) the marginal benefit always equals the marginal cost.

Answer: A
User1:

Use the figure below to answer the following question(s).

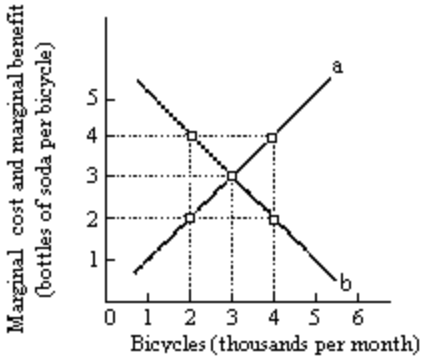

Figure 2.4

20) In Figure 2.4, the curve labelled *a* is the _____ curve and the curve labelled *b* is the _____ curve.
A) marginal cost; marginal benefit
B) marginal benefit; trade line
C) marginal cost; trade line
D) marginal benefit; marginal cost
E) production possibility; trade line

Answer: A
User1:

21) In Figure 2.4, when 2,000 bicycles are made each month, we can see that
A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
B) more bicycles should be produced to reach the efficient level of output.
C) fewer bicycles should be produced to reach the efficient level of output.
D) the economy is very efficient at this level of production of bicycles.
E) both A and B.

Answer: E
User1:

22) Allocative efficiency refers to a situation where
A) we cannot produce more of any one good without giving up some other good.
B) opportunity costs are equal.
C) we cannot produce more of any good without giving up some other good that we value more highly.
D) all of the above.
E) none of the above.

Answer: C
User1:

23) Suppose the production possibilities frontier for skirts and pants is a straight line. As the production of skirts increases, the marginal benefit of skirts
A) decreases and marginal cost increases.
B) decreases and marginal cost decreases.
C) decreases and marginal cost is constant.
D) increases and marginal cost is constant.
E) is constant and marginal cost decreases.

Answer: C
User1: Study Guide

24) A technological improvement is represented by
A) a movement from a point inside the production possibilities frontier to a point on the production possibilities frontier.
B) an outward shift of the production possibilities frontier.
C) a point inside the production possibilities frontier.
D) a point outside the production possibilities frontier.
E) a movement along the production possibilities frontier.

Answer: B
User1:

25) In general, if country *A* is accumulating capital at a faster rate than country *B*, then country *A*
A) is using a larger proportion of resources to produce consumption goods.
B) will soon have a comparative advantage in the production of most goods.
C) will have a production possibilities frontier that is shifting out faster than country *B*'s.
D) will have a higher rate of inflation than country *B*.
E) will have more unemployment than country *B*.

Answer: C
User1:

26) Which one of the following is *not* something that will shift out the production possibilities frontier?
A) the use of unemployed resources
B) improvements in the weather
C) the accumulation of new ideas about better ways to produce goods
D) the production of less consumption goods
E) the accumulation of capital goods

Answer: A
User1:

27) Individuals *A* and *B* can both produce good *X*. We say that *A* has a comparative advantage in the production of good *X* if
A) *A* can produce less units of *X* in a given time period than *B*.
B) *A* has a lower opportunity cost of producing *X* than *B*.
C) *A* can produce *X* using newer technology than *B*.
D) *A* can produce more units of *X* in a given time period than *B*.
E) *A* has a higher opportunity cost of producing X than B.

Answer: B
User1:

28) A person has an absolute advantage in producing a good when he/she
A) can produce more of that good than anyone else, using the same quantity of inputs.
B) can produce the good at lower opportunity cost than anyone else.
C) has a comparative advantage in producing that good.
D) has better technology than anyone else.
E) has exclusive rights to sell one good.

Answer: A
User1:

Use the information below to answer the following question(s).

Fact 2.2

Agnes can produce either 1 unit of *X* or 1 unit of *Y* in an hour, while Brenda can produce either 2 units of *X* or 4 units of *Y* in an hour.

29) Refer to Fact 2.2. Which one of the following statements is true?
A) Brenda will not gain from trade.
B) Brenda has an absolute advantage over Agnes in the production of both goods.
C) Agnes has a comparative advantage in the production of *Y*.
D) Brenda has a comparative advantage in the production of *X*.
E) Agnes will not gain from trade.

Answer: B
User1:

30) Given Fact 2.2, the opportunity cost of producing a unit of *X* is
A) 1 hour for Agnes and 2 hours for Brenda.
B) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
C) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
D) 1 hour for Agnes and 1/2 hour for Brenda.
E) 1 hour for Agnes and 1/4 hour for Brenda.

Answer: C
User1:

31) Given Fact 2.2, the opportunity cost of producing a unit of *Y* is
A) 1 unit of *X* for Agnes and 1/2 unit of *X* for Brenda.
B) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
C) 1 hour for Agnes and 2 hours for Brenda.
D) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
E) 1 hour for Agnes and 1/2 hour for Brenda.

Answer: A
User1:

32) Complete the following sentence. Given Fact 2.2,
A) there will be gains from exchange if Agnes specializes in the production of *X* and Brenda in *Y*.
B) there will be gains from exchange, no matter what Brenda and Agnes specialize in, as long as they specialize.
C) there will be gains from exchange only if Agnes becomes faster at producing *X*.
D) there will be gains from exchange only if Agnes specializes in the production of *Y* and Brenda in *X*.
E) there will be no gains from exchange because Agnes has an absolute advantage.

Answer: A
User1:

33) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The production possibilities frontier of this firm would have
A) constant opportunity cost.
B) increasing opportunity cost.
C) under-utilization of resources.
D) over-utilization of resources.
E) learning-by-doing.

Answer: A
User1:

34) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The opportunity cost of one more unit of medical services is
A) dependent on the level of services.
B) 2.5 units of secretarial services
C) 5 units of secretarial services.
D) 0.4 units of secretarial services.
E) 2 units of secretarial services.

Answer: B
User1:

35) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 10 units of medical services and 30 units of secretarial services. This output level is
A) costless.
B) efficient.
C) unattainable.
D) inefficient.
E) is attainable if the firm reduces the number of its workers.

Answer: C
User1:

36) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 16 units of medical services and 5 units of secretarial services. This output level is
A) attainable and efficient.
B) unattainable.
C) efficient.
D) costless.
E) inefficient.

Answer: E
User1:

Use the table below to answer the following question(s).

Table 2.1 The following table gives points on the production possibilities frontier for goods *X* and *Y*.

Point	Production of *X*	Production of *Y*
a	0	40
b	4	36
c	8	28
d	12	16
e	16	0

37) Refer to Table 2.1. What does point *c* mean?
A) If 8 units of *X* are produced, then at most 28 units of *Y* can be produced.
B) There is unemployment at this point.
C) If 28 units of *Y* are produced, then more than 8 units of *X* can be produced.
D) If 8 units of *X* are produced, then only 36 units of *Y* can be produced.
E) If 8 units of *X* are produced, then at least 28 units of *Y* can be produced.

Answer: A
User1:

38) Refer to Table 2.1. The opportunity cost of increasing the production of *X* from 8 to 12 units is
A) 4 units of *X*.
B) 4 units of *Y*.
C) 16 units of *Y*.
D) 8 units of *Y*.
E) 12 units of *Y*.

Answer: E
User1:

39) Refer to Table 2.1. The opportunity cost of increasing the production of *Y* from 16 to 36 units is
A) 12 units of *X*.
B) 4 units of *X*.
C) 20 units of *Y*.
D) 16 units of *X*.
E) 8 units of *X*.

Answer: E
User1:

40) From the data in Table 2.1, the production of 7 units of *X* and 28 units of *Y* is
A) impossible given the available resources.
B) a possibility we cannot determine from the table.
C) on the *PPF* between points *c* and *d*.
D) on the *PPF* between points *b* and *c*.
E) possible but leaves some resources less than fully utilized.

Answer: E
User1:

41) Refer to Table 2.1. As we increase the production of *X*,
A) the amount of *Y* that is given up for each additional unit of *X* decreases.
B) the amount of *X* increases at an increasing rate.
C) the output of *Y* increases.
D) the opportunity cost of each new unit of *X* increases.
E) unemployment increases.

Answer: D
User1:

42) From the data in Table 2.1 we can infer that
A) the opportunity cost of producing an additional unit of *Y* increases as the production of *Y* increases.
B) the opportunity cost of producing an additional unit of *Y* decreases as the production of *Y* increases.
C) the economy illustrated has a comparative advantage in the production of *X*.
D) the economy illustrated has a comparative advantage in the production of *Y*.
E) none of the above.

Answer: A
User1:

43) From the data in Table 2.1, the production of 10 units of *X* and 28 units of *Y* is
A) something whose possibility we cannot infer from the table.
B) possible but leaves some resources less than fully utilized.
C) impossible given the available resources.
D) possible if we reduce the amount of capital goods.
E) on the production possibilities frontier between points *c* and *d*.

Answer: C
User1:

Use the figure below to answer the following question(s).

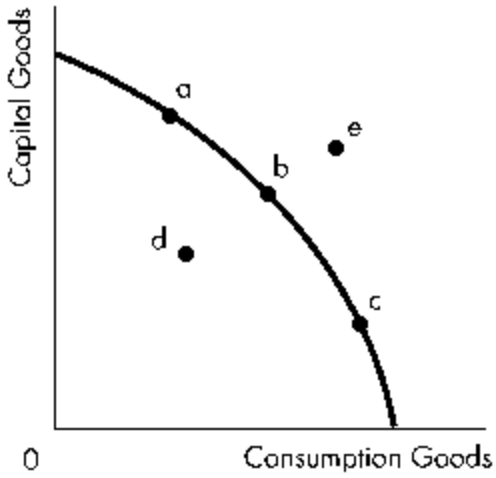

Figure 2.5

44) Refer to the production possibilities frontier in Figure 2.5. The production possibilities frontier will shift out more rapidly if current production is at

A) *a*.
B) *b*.
C) *c*.
D) *d*.
E) *e*.

Answer: A
User1:

45) Refer to the production possibilities frontier in Figure 2.5. Which point indicates that resources are not fully utilized?

A) *a*.
B) *b*.
C) *c*.
D) *d*.
E) *e*.

Answer: D
User1:

46) Refer to the production possibilities frontier in Figure 2.5. Which point is unattainable?

A) *a*.
B) *b*.
C) *c*.
D) *d*.
E) *e*.

Answer: E
User1:

Use the table below to answer the following question(s).

Table 2.5 Production for one week by Sheila and Bruce

Sheila		Bruce	
Good *X*	Good *Y*	Good *X*	Good *Y*
8	0	20	0
6	1	15	2
4	2	10	4
2	3	5	6
0	4	0	8

47) Consider Table 2.5. All of the following are true *except*:
A) Bruce has a comparative advantage in the production of X.
B) Sheila has an absolute advantage in the production of X.
C) Sheila has an absolute advantage in the production of Y.
D) Sheila has a comparative advantage in the production of X.
E) There are no potential gains from trade.

Answer: A
User1:

48) Given the information in Table 2.5, can Sheila and Bruce gain by specialization?
A) It depends on the wages each earns.
B) only if they are married to each other
C) no, not under the given circumstances
D) yes, unconditionally
E) yes, but only if Bruce gets paid more than Sheila

Answer: D
User1:

49) Given the information in Table 2.5, which one of the following is true?
A) Sheila should specialize in good X.
B) The opportunity cost to Bruce of an additional unit of X is 0.4 units of Y.
C) Bruce should specialize in good X.
D) A and B.
E) B and C.

Answer: E
User1: