

## ECON102 Practice Questions for Chapter 1 and 2

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

1. Which of the following is the best definition of economics?
  - A) the study of how producers decide what inputs to hire and what outputs to produce
  - B) the study of how consumers spend their income
  - C) the study of how consumers and producers meet each other at the market
  - D) the study of how individuals, businesses, governments, and entire societies make choices as they cope with scarcity and the incentives that influence and reconcile those choices
  - E) the study of how a provincial government allocates tax dollars
2. The study of how wages are set for New Brunswick teachers is classified as
  - A) economics of private interest.
  - B) a microeconomic topic.
  - C) economics of social interest.
  - D) normative economics.
  - E) a macroeconomic topic.
3. Each of the following would be considered a macroeconomic topic *except*
  - A) the determination of aggregate income.
  - B) the effect of the government budget deficit on inflation.
  - C) the selection of production techniques.
  - D) the reasons for a decrease in the unemployment rate.
  - E) the cause of recessions.
4. The fact that human wants cannot be fully satisfied with available resources is called the problem of
  - A) the big tradeoff.
  - B) scarcity.
  - C) normative economics.
  - D) opportunity cost.
  - E) marginal cost.
5. An incentive \_\_\_\_\_.
  - A) could be a reward but could not be a penalty
  - B) occurs in the macroeconomy but not in the microeconomy
  - C) could be either a reward or a penalty
  - D) is the opposite of a tradeoff
  - E) could be a penalty but could not be a reward
6. The two big economic questions include all of the following *except*
  - A) can choices made in the pursuit of self-interest also promote the social interest.
  - B) *how* to produce.
  - C) *for whom* to produce.
  - D) *what* to produce.
  - E) *why* to produce.
7. When a textile firm decides to produce more silk fabric and less cotton fabric, it is answering the \_\_\_\_\_ question.
  - A) "who"
  - B) "where"
  - C) "how"
  - D) "when"
  - E) "what"

8. To earn income, people sell the services of the factors of production they own. Land earns \_\_\_\_\_; labour earns \_\_\_\_\_; capital earns \_\_\_\_\_ and entrepreneurship earns \_\_\_\_\_.
- A) wages; interest; profit; rent
  - B) interest; profit; rent; wages
  - C) profit; interest; wages; rent
  - D) profit; wages; rent; interest
  - E) rent; wages; interest; profit
9. Complete the following sentence. Entrepreneurship is
- A) defined as money.
  - B) traded on the stock market.
  - C) the human resource that organizes labour, land and capital.
  - D) categorized as capital.
  - E) categorized as the factor of production labour.
10. Self-interest choices are
- A) those choices that are best for all residents of a region.
  - B) choices that are agreed to by majority vote.
  - C) those choices which are best for the person making them.
  - D) always in the social interest.
  - E) never in the social interest.
11. A tractor is an example of which of the following factors of production?
- A) entrepreneurship
  - B) energy
  - C) capital
  - D) labour
  - E) land
12. Which one of the following is labour?
- A) money
  - B) a bread-slicing machine
  - C) a singer's voice
  - D) a shoe factory
  - E) a carpenter's hammer
13. Choose the correct statement.
- A) Canada produces more goods than services.
  - B) Canada produces more services than goods.
  - C) China's production of services is a greater percentage of its total production than Canada's.
  - D) Canada's production of manufacturing is a greater percentage of its total production than China's.
  - E) Canada produces an equal quantity of goods and services.
14. Opportunity cost is
- A) the money you spend on food, shelter, and clothing.
  - B) the value of your favourite activity.
  - C) the highest-valued alternative that we give up to get something.
  - D) your value of leisure.
  - E) the marginal benefit from an activity.

15. The concept of opportunity cost
- A) suggests a major increase in public education spending means a reduced expansion in the public healthcare system.
  - B) is relevant only for European countries.
  - C) is relevant only for developed countries.
  - D) is relevant only for developing countries.
  - E) suggests that individuals can achieve all they want.
16. Saskatchewan had more hospitals than Ontario, despite having one-tenth the population. The Saskatchewan government closed many of these hospitals in spite of widespread local protests. Which one of the following arguments is true?
- A) If Saskatchewan had more hospitals than Ontario, it must have had too many hospitals.
  - B) The communities where these hospitals existed bore no costs from these decisions, because they did not pay for any of the hospital operating costs.
  - C) Since hospitals have positive benefits, they should never be closed.
  - D) The Saskatchewan government must have thought the marginal benefit from one of these hospitals was less than its marginal cost.
  - E) The Saskatchewan government must have thought the marginal benefit from one of these hospitals exceeded its marginal cost.
17. Which of the following sayings best describes opportunity cost?
- A) "Boldly go where no one has gone before."
  - B) "There's no such thing as a free lunch."
  - C) "Baseball has been very good to me."
  - D) "Make hay while the sun shines."
  - E) "Love of money is the root of all evil."
18. Which of the following statements is normative?
- A) As e-book prices fall, people buy more of them.
  - B) Scientists should not make normative statements.
  - C) If income increases, sales of luxury goods fall.
  - D) Warts are caused by handling toads.
  - E) There is more caffeine in a cup of tea than in a cup of coffee.
19. Model *A* is superior to model *B* if
- A) it contains fewer unrealistic assumptions than model *B*.
  - B) it is preferred by a majority of researchers in a public opinion poll.
  - C) it contains more real world detail than model *B*.
  - D) its predictions correspond more closely to the facts than the predictions of model *B*.
  - E) it is scientifically "elegant."
20. Which one of the following concepts is *not* illustrated by a production possibilities frontier?
- A) scarcity
  - B) monetary exchange
  - C) the tradeoff between producing one good versus another
  - D) attainable and unattainable points
  - E) opportunity cost

21. A point inside a production possibilities frontier
- A) indicates a point of production efficiency.
  - B) indicates some unused or misallocated resources.
  - C) is preferred to a point on the production possibilities frontier.
  - D) illustrates the idea of opportunity cost.
  - E) is unattainable.

Use the figure below to answer the following questions.

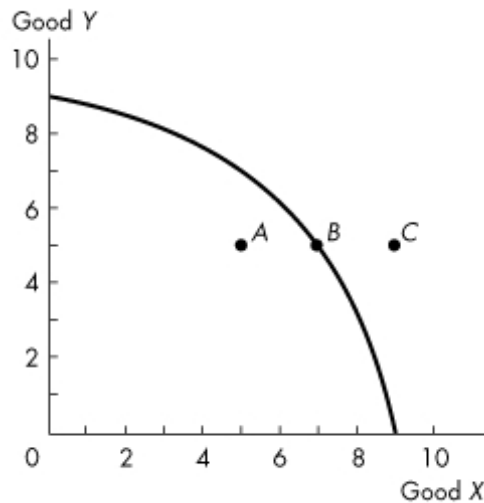


Figure 2.1.1

22. Complete the following sentence. In Figure 2.1.1,
- A) the concept of decreasing opportunity cost is illustrated.
  - B) movement from C to B would require a technological improvement.
  - C) point B is a point of production efficiency.
  - D) movement from A to B would require a technological advance.
  - E) some resources must be unused at point C.
23. A production possibilities frontier is negatively sloped because
- A) of opportunity cost.
  - B) more goods are purchased as price falls.
  - C) of increasing consumption.
  - D) there is not enough capital in the economy.
  - E) some resources are unused.
24. Which of the following quotations best illustrates a tradeoff?
- A) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
  - B) "The firm has been able to lower costs due to its extensive experience in building widgets."
  - C) "If the firm invests more in capital equipment, it can expand sales next year."
  - D) "The more and more gadgets the firm produces, the bigger the fall in widget production."
  - E) "The firm should sell more gadgets, even if it means less widget sales."

25. 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) 5 units of secretarial services.
  - B) 2 units of secretarial services.
  - C) 2.5 units of secretarial services
  - D) dependent on the level of services.
  - E) 0.4 units of secretarial services.
26. The bowed-out (concave) shape of a production possibilities frontier
- A) reflects the existence of decreasing opportunity cost.
  - B) is due to the equal usefulness of resources in all activities.
  - C) reflects the existence of increasing opportunity cost.
  - D) is due to technological change.
  - E) is due to capital accumulation.
27. If additional units of any good could be produced at a *constant* opportunity cost, the production possibilities frontier would be
- A) bowed inward.
  - B) bowed outward.
  - C) linear.
  - D) positively sloped.
  - E) negatively sloped.

Use the figure below to answer the following questions.

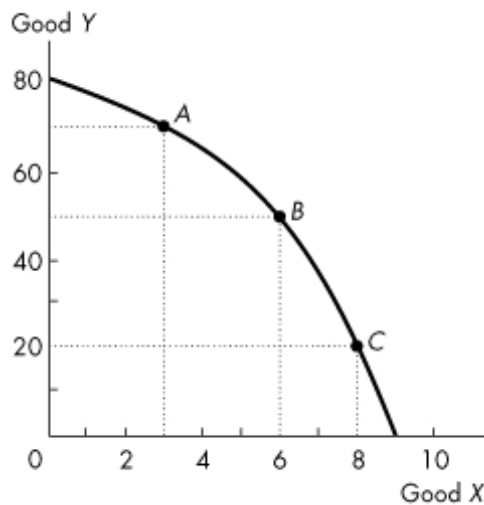


Figure 2.1.2

28. Refer to the production possibilities frontier in Figure 2.1.2. If 6 units of X are currently being produced, then
- A) 40 units of Y cannot be produced unless production of X is increased.
  - B) 50 units of Y must be produced, regardless of resource utilization.
  - C) 40 units of Y cannot be produced unless production of X is decreased.
  - D) 60 units of Y can be produced with some resources *not* fully used.
  - E) 50 units of Y can be produced if all resources are used and assigned to the task for which they are the best match.

29. Refer to the production possibilities frontier in Figure 2.1.2. At point A, the opportunity cost of producing 3 more units of X
- A) is 10 units of Y.
  - B) is 20 units of Y.
  - C) is 30 units of Y.
  - D) is 3 units of X.
  - E) cannot be determined from the diagram.

Use the table below to answer the following questions.

Table 2.1.1

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

30. From the data in Table 2.1.1 we can infer that
- A) the opportunity cost of producing an additional unit of Y increases as the production of Y increases.
  - B) the economy illustrated has a comparative advantage in the production of X.
  - C) the economy illustrated has a comparative advantage in the production of Y.
  - D) the opportunity cost of producing an additional unit of Y decreases as the production of Y increases.
  - E) none of the above.

Use the table below to answer the following questions.

Table 2.1.2  
Production Possibilities

Possibility	Kilograms of Butter	Guns
A	8	0
B	6	1
C	0	3

31. Refer to Table 2.1.2. In moving from combination B to combination C, the opportunity cost of producing *one* additional unit of guns is
- A) 6 kilograms of butter.
  - B) 3 kilograms of butter.
  - C) 1/2 kilogram of butter.
  - D) 2 kilograms of butter.
  - E) 1/6 kilogram of butter.
32. The slope of the production possibilities frontier curve indicates
- A) preferences.
  - B) opportunity cost.
  - C) comparative advantage.
  - D) absolute advantage.
  - E) marginal benefit.

33. Complete the following sentence. Marginal cost
- A) remains constant.
  - B) is always greater than marginal benefit.
  - C) is the opportunity cost of producing one more unit of a good or service.
  - D) always equals marginal benefit.
  - E) is unrelated to the production possibilities frontier.

Use the figure below to answer the following questions.

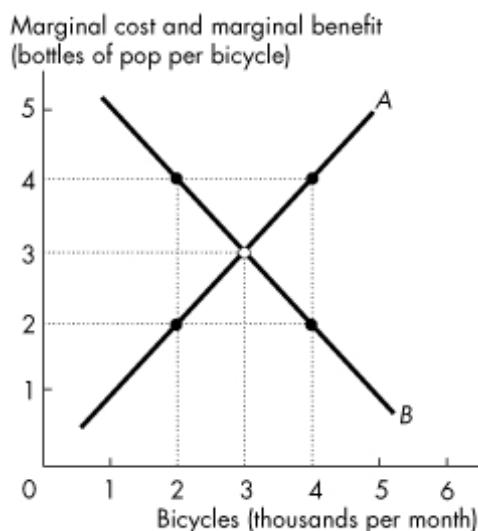


Figure 2.2.1

34. In Figure 2.2.1, when 2,000 bicycles are produced each month
- A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
  - B) more bicycles must be produced to reach the efficient level of output.
  - C) the economy is efficient at this level of production of bicycles.
  - D) fewer bicycles must be produced to reach the efficient level of output.
  - E) both A and B.
35. A marginal benefit curve measures
- A) comparative advantage.
  - B) willingness to pay.
  - C) opportunity cost.
  - D) expenditure.
  - E) absolute advantage.
36. Allocative efficiency refers to a situation where
- A) opportunity cost is zero.
  - B) we cannot produce more of any one good without giving up some other good.
  - C) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.
  - D) opportunity costs are equal.
  - E) none of the above.

37. As production of food increases, marginal benefit from food
- A) decreases and marginal cost increases.
  - B) decreases and marginal cost is zero.
  - C) increases and marginal cost decreases.
  - D) decreases and marginal cost decreases.
  - E) increases and marginal cost increases.
38. 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) a point inside the production possibilities frontier.
  - C) a point outside the production possibilities frontier.
  - D) an outward shift of the production possibilities frontier.
  - E) a movement along the production possibilities frontier.
39. In general, if country *A* is accumulating capital at a faster rate than country *B*, then country *A*
- A) will have more unemployment than country *B*.
  - B) will have a production possibilities frontier that is shifting out faster than country *B*'s.
  - C) will soon have a comparative advantage in the production of most goods.
  - D) will have a higher rate of inflation than country *B*.
  - E) is using a larger proportion of resources to produce consumption goods.
40. Which one of the following would likely shift a production possibilities frontier *inward*?
- A) a drought.
  - B) technological change.
  - C) a decrease in the price of natural resources.
  - D) all of the above
  - E) None of the above, because production possibilities frontiers do not shift inward.
41. A movement *along* the production possibilities frontier will result from
- A) change in the labour force.
  - B) change in the stock of capital.
  - C) technological change.
  - D) all of the above.
  - E) none of the above.
42. Consider a country that has two industries. In the north, they grow wild rice, which requires a lot of rainfall. In the south, they grow wheat, which requires just a moderate amount of rainfall (too much rainfall is bad for wheat production). One year, there is a record rainfall. This will result in
- A) the production possibilities frontier swiveling, with the wild rice intercept increasing, and the wheat intercept decreasing.
  - B) the production possibilities frontier swiveling, with the wild rice intercept decreasing, and the wheat intercept increasing.
  - C) a parallel shift inward of the production possibilities frontier.
  - D) a parallel shift outward of the production possibilities frontier.
  - E) none of the above.



43. Which of the following quotations illustrates economic growth?
- A) "The firm has been able to lower costs due to its extensive experience in building widgets."
  - B) "If the firm invests more in capital equipment, it can expand production next year."
  - C) "The firm should sell more gadgets, even if it means less widget sales."
  - D) "The more and more gadgets the firm produces, the bigger the fall in widget production."
  - E) "The firm should lower the price it charges for widgets and gadgets."
44. 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* has a higher opportunity cost of producing *X* than *B*.
  - D) *A* can produce *X* using newer technology than *B*.
  - E) *A* can produce more units of *X* in a given time period than *B*.
45. Debra has an absolute advantage in producing a good when she
- A) has better technology than anyone else.
  - B) can produce the good at lower opportunity cost than anyone else.
  - C) has a comparative advantage in producing that good.
  - D) can produce more of that good than anyone else, using the same quantity of inputs.
  - E) has exclusive rights to sell that good.

*Use the information below to answer the following questions.*

Fact 2.4.1

In an eight-hour day, Andy can produce either 24 loaves of bread or 8 kilograms of butter. In an eight-hour day, Rolfe can produce either 8 loaves of bread or 8 kilograms of butter.

46. Given Fact 2.4.1, the opportunity cost of producing 1 loaf of bread is
- A) 3 kilograms of butter for Andy and 1 kilogram of butter for Rolfe.
  - B) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
  - C) 1/3 kilogram of butter for Andy and 1 kilogram of butter for Rolfe.
  - D) 8 kilograms of butter for both Andy and Rolfe.
  - E) not calculable from the given information.
47. Refer to Fact 2.4.1. Which one of the following statements is true?
- A) Rolfe has a comparative advantage in bread production.
  - B) Andy has an absolute advantage in butter production.
  - C) Andy has a comparative advantage in butter production.
  - D) Rolfe has an absolute advantage in butter production.
  - E) Andy has a comparative advantage in bread production.
48. Given Fact 2.4.1, Andy and Rolfe
- A) can gain from trade if Andy specializes in bread production and Rolfe specializes in butter production.
  - B) can trade, but only Rolfe will gain.
  - C) can trade, but only Andy will gain.
  - D) cannot gain from trade.
  - E) can gain from trade if Andy specializes in butter production and Rolfe specializes in bread production.

49. Any two individuals will gain from exchange
- A) unless one has an absolute advantage in producing all goods.
  - B) unless they have different opportunity costs for producing all goods.
  - C) if each specializes in the production of the good for which he has the higher opportunity cost.
  - D) unless they have the same absolute advantage in producing all goods.
  - E) unless they have the same opportunity costs for producing all goods.
50. It pays for people to specialize and trade with each other because
- A) this way they can consume outside their production possibilities frontier.
  - B) they can take advantage of the fact they have an absolute advantage in the production of something.
  - C) this way the strong can exploit the weak.
  - D) otherwise they would not survive.
  - E) all of the above.
51. To gain from comparative advantage, countries must not only trade, they must also
- A) engage in research and development.
  - B) save.
  - C) specialize.
  - D) engage in capital accumulation.
  - E) invest.
52. Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. If Tom and Jerry specialize and trade eggs and sandwiches with each other \_\_\_\_\_.
- A) Tom benefits but Jerry does not
  - B) either Tom or Jerry benefit but we don't have enough information to know which one benefits
  - C) both of them benefit
  - D) Jerry benefits but Tom does not
  - E) neither Tom nor Jerry benefit
53. Markets
- I. enable buyers and sellers to get information
  - II. are defined by economists as geographical locations where trade occurs.
  - III. have evolved because they facilitate trade.
- Which of the above statements are correct?
- A) I and III only
  - B) I, II and III
  - C) III only
  - D) I only
  - E) II and III only
54. A property right is
- A) a social arrangement that governs the ownership, use, and disposable of anything that people value.
  - B) an economic unit that hires factors of production and organizes those factors to produce and sell goods and services.
  - C) a medium of exchange.
  - D) any arrangement that enables buyers and sellers to get information and to do business with each other.
  - E) any commodity or token that is generally acceptable as a means of payment.

55. Which market is an example of a market for services?

- A) manufactured input market
- B) tennis lessons market
- C) labour market
- D) orange market
- E) energy market