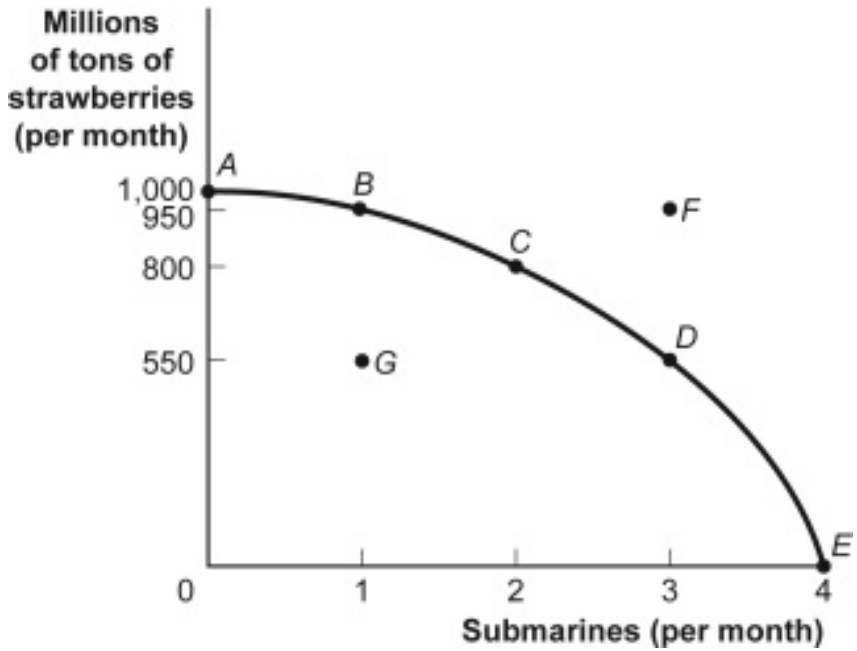
CH-310-B Microeconomics - Theory and Policy

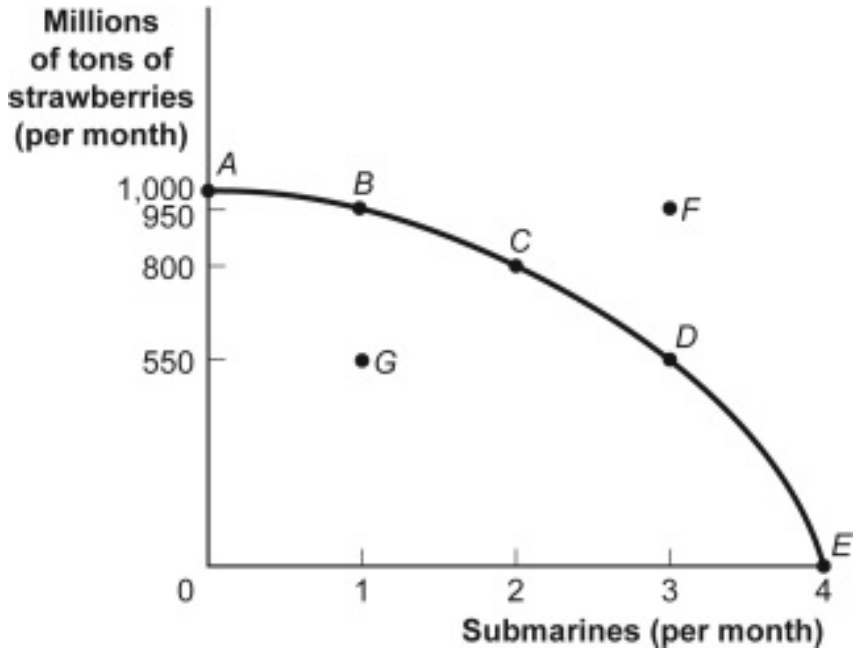
Chapter 2 of Krugman and Wells

Opportunity cost



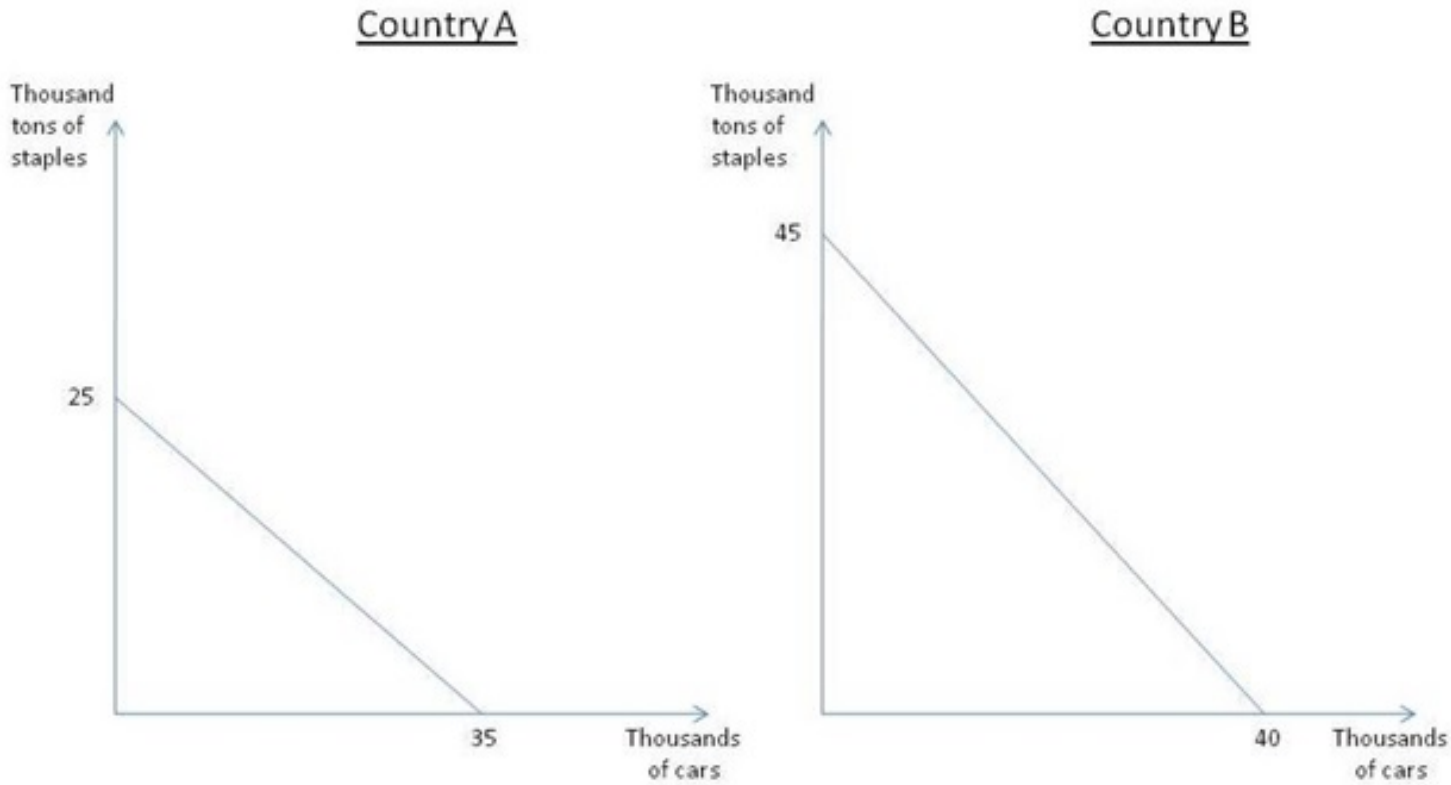
- As the economy moves from point A toward, say, point D, it will find that the opportunity cost of each additional submarine: (a) falls (b) rises (c) remains unchanged (d) doubles

Opportunity cost



- Suppose the economy is now operating at point C. Moving to point E would require that the economy: (a) achieve full employment and an efficient allocation of resources. (b) eliminate its production of strawberries. (c) reduce its production of submarines. (d) improve its technology or increase the quantities of factors of production it has.

Comparative advantage



- Assume that Country A and Country B have the production possibility frontiers depicted below. Would it make sense for these countries to engage in trade? If so, how would the pattern of specialization look?

Opportunity cost

You won a free ticket to see a Calvin Harris concert (which has no resale value). Rihanna is performing on the same night in a nearby venue and is your next-best alternative activity. Tickets to see Rihanna cost $40. On any given day, you would be willing to pay up to $50 to see Rihanna. Assume there are no other costs of seeing either performer. Based on this information, what is the opportunity cost of seeing Calvin Harris?

(a) 0

(b) 10

(c) 40

(d) 50

Opportunity cost/comparative advantage

In one hour, the United States can produce 25 tons of steel or 250 automobiles. In one hour, Japan can produce 30 tons of steel or 275 automobiles. This information implies that:

(a) Japan has a comparative advantage in the production of automobiles.

(b) the United States has an absolute advantage in the production of steel.

(c) Japan has a comparative advantage in the production of both goods.

(d) the United States has a comparative advantage in the production of automobiles.

Equilibrium

- At most airports there are multiple security guards ready to screen passengers, and their luggage, through the X-ray and metal-detector checkpoints. The length of the wait for each line is about the same. Why?