ECON 103 Name Sara

Chapter 2 Assignment

1. When building a model, economists:
   A) simplify reality in order to highlight what really matters.
   B) attempt to duplicate reality in all its complexity.
   C) ignore the facts, and instead try to determine what the facts should be.
   D) do all of the above.

2. Consider a possible production possibilities frontier for Iraq. If in 2005 Iraq's resources are not being fully utilized, Iraq will be somewhere _____ of its production possibilities frontier.
   A) inside
   B) outside
   C) near the bottom
   D) near the top

3. The production possibilities frontier is bowed-out from the origin, because:
   A) resources are not equally suited for the production of both goods.
   B) resources are scarce.
   C) economic growth leads to inefficiency.
   D) resources are inefficiently used.

4. The production possibilities frontier will shift outward for all of the following reasons EXCEPT:
   A) an increase in the unemployment rate.
   B) an increase in the labour force.
   C) an improvement in technology.
   D) an increase in worker productivity.

5. If the production possibilities frontier is a straight line, which of the following is TRUE?
   A) Opportunity costs are constant.
   B) The firm faces increasing costs.
   C) The resources used to produce two goods are different.
   D) Both a and c are correct.

6. In a single day, Sarah can produce 10 hamburgers while Abe can produce 5 hamburgers. We then know that:
   A) Sarah has the comparative advantage in making hamburgers.
   B) Sarah has the absolute advantage in making hamburgers.
   C) Abe has a comparative advantage in making hamburgers.
   D) Abe has an absolute advantage in making hamburgers.

7. Roommates Sarah and Zoe are hosting a Halloween party and have to make food for their guests and costumes for themselves. To finish both tasks as quickly as possible, Sarah and Zoe know that each of them should focus on just one task, but they don't know who should do what. To decide which roommate should do the cooking, Sarah and Zoe should determine which roommate:
   A) has the absolute advantage in cooking.
   B) has the comparative advantage in cooking.
   C) has the largest production possibilities frontier in cooking.
   D) can complete the cooking in the least amount of time.

8. In the circular-flow model, the interaction between households and firms implies that:
   A) we need money to buy things.
   B) households and firms interact in the market for goods and services, but firms are the only participants in the factor markets.
   C) firms supply goods and services to households which, in turn, supply factors of production to firms.
   D) the focus is on the "real" flows of goods, services, and factors of production, but the flows of money between households and firms are ignored for simplicity.

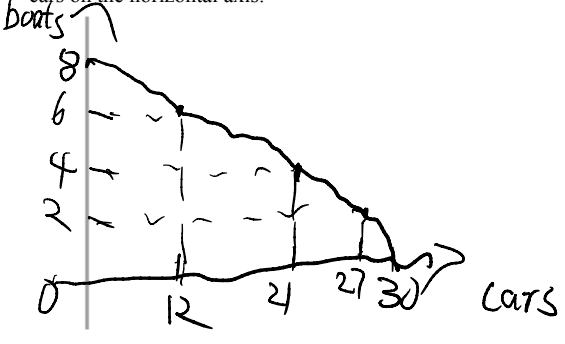
9. Which of the following is a normative statement?
   A) International trade leads to expanded consumption opportunities.
   B) Higher expenditures on health care will reduce infant mortality rates.
   C) We would all be better off if we could reduce our dependence on oil imports.
   D) Increased defence spending will lead to higher budget deficits.

10. Which of the following would be a positive economic statement?
   A) Government has grown too large and should be reduced.
   B) There has been an increase in the rate of inflation.
   C) Government should be subject to the same rules as all other institutions.
   D) Women should be paid as much as men for the same work.

11. Below is a production possibilities table for cars and boats.

	A	B	C	D	E
Boats	0	2	4	6	8
Cars	30	27	21	12	0

a. Draw the production possibilities curve, showing boats on the vertical axis and cars on the horizontal axis.



b. What two assumptions is this curve based on?

The economy runs in the max efficiency
All resources are used
Resources and technology are fixed

c. If the economy is at point C, what is the cost of one more boat? 4.5 cars

d. If the economy is at point C, what is the cost of one more car? 3 boats

e. How would you describe the economy's use of resources if it were producing 3 boats and 20 cars?

The economy is inefficient but possible

f. What would have to happen in the future in order for the economy to be able to produce 5 boats and 22 cars?

Technology growth, empolyment rate increase, labour force increase

12. The following table contains the production possibilities of New Zealand and Spain for kiwis (1000s of kg) and bottles of merlot (1000s).

New Zealand		Spain	
Merlot	Kiwis	Merlot	Kiwis
0	60	0	15
20	40	20	10
40	20	40	5
60	0	60	0

a) What are New Zealand's opportunity costs per kiwi?

1 Merlots

b) What are New Zealand's opportunity costs per bottle of merlot?

1 kiwis

c) What are Spain's opportunity costs per kiwi?

4 merlots

d) What are Spain's opportunity costs per bottle of merlot?

0.25 Kiwis

e) Which country has a comparative advantage in kiwis?

New Zeland

f) Which country has a comparative advantage in merlot?

Spain

g) Which country has an absolute advantage in kiwis?

New Zeland

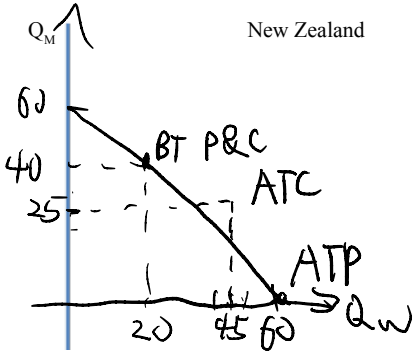
h) Which country has an absolute advantage in merlot?

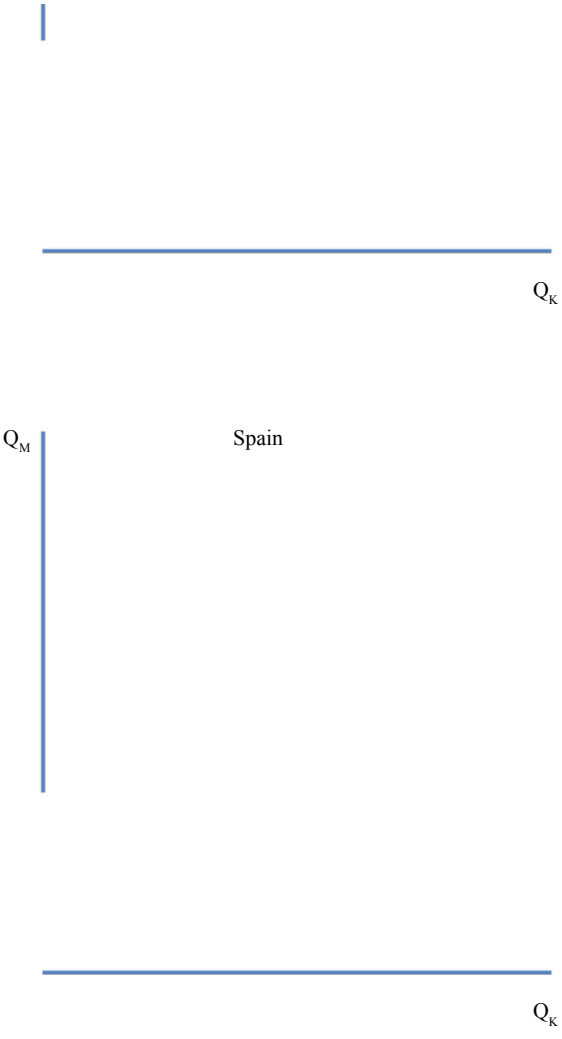
No countries

i) Suppose that before trade New Zealand chose to produce and consume 20,000 bottles of merlot and 40,000kg kiwis, and Spain chose to produce and consume 20,000 bottles of merlot and 10,000kg kiwis. If they trade 25,000 bottles of merlot for 15,000kg kiwis, calculate their gains from trade. Fill out the table below.

		Produced Before Trade	Consumed Before Trade	Produced After Trade	Consumed After Trade	Gains
New Zealand	Merlot	20000	20000	0	25000	5000
	Kiwis	40000	40000	60000	45000	5000
Spain	Merlot	20000	20000	60000	35000	15000
	Kiwis	10000	10000	0	15000	5000

j) Draw the production possibility frontiers for New Zealand and Spain. On the graphs label the before trade production and consumption points (BT P&C), the after trade production point (ATP) and the after trade consumption point (ATC).



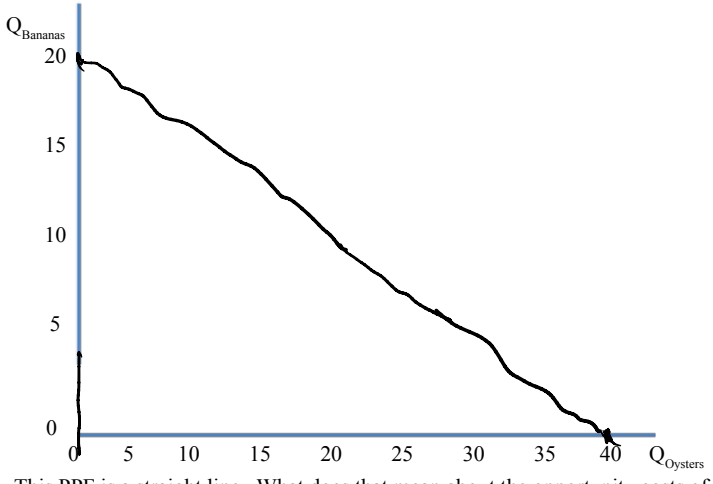


13. A small island economy produces two goods: bananas and oysters. The island has enough people to provide a total of 20 units of labour per day.

a. Each banana requires 1 unit of labour to produce and each oyster requires 2 units of labour to produce. Fill in the production possibilities table below and draw the production possibility frontier.

b. Suppose technology for oyster catching improves and now each oyster only uses 0.5 units of labour to produce. Fill in the last column with the new quantities of oysters. Draw the new PPF on the graph.

	Labour (Bananas)	Labour (Oysters)	$Q_{Bananas}$	$Q_{Oysters}$	$Q_{Oysters}$ (with new Technology)
A	0	20	0	10	40
B	2	18	2	9	36
C	4	16	4	8	32
D	6	14	6	7	28
E	8	12	8	6	24
F	10	10	10	5	20
G	12	8	12	4	16
H	14	6	14	3	12
I	16	4	16	2	8
J	18	2	18	1	4
K	20	0	20	0	0



c. This PPF is a straight line. What does that mean about the opportunity costs of resources on the island?

The opportunity cost is constant

d. With the old technology what is the opportunity cost per banana?

0.5 oysters

e. With the old technology what is the opportunity cost per oyster?

2 bananas

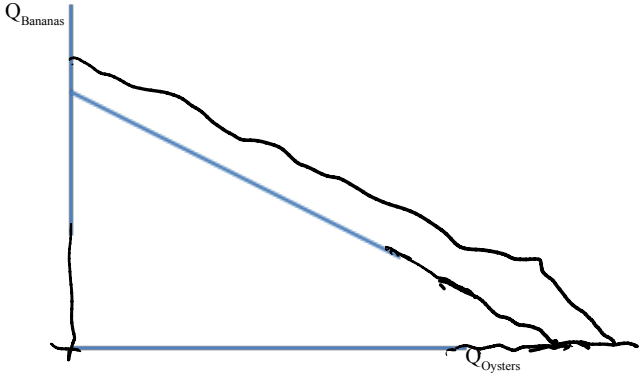
f. With the new technology what is the opportunity cost per banana?

2 oysters

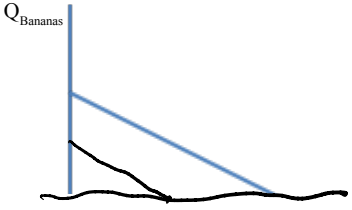
g. With the new technology what is the opportunity cost per oyster?

0.5 bananas

h. If the island acquired more labour through population growth what would happen to the PPF? Show on the graph below.



i. If the island lost labour due to sickness what would happen to the PPF? Show on the graph below.



7