# Chapter 2 Assignment

A 1. Economists often use which of the following as a substitute for laboratory experiments?
   a. natural experiments offered by history
   b. field-generated experiments and simulations
   c. studies conducted by biologists and physicists
   d. assumptions and predictions

C 2. Which of the following statements is true with reference to the circular-flow diagram?
   a. Households are sellers in the resource market and the product market.
   b. Firms are buyers in the product market.
   c. Households are sellers in the resource market.
   d. Firms are sellers in the resource market

A 3. Which of the following statements is true in an economy that is producing efficiently?
   a. In order to produce more of one good, less of another good can be produced.
   b. More of both goods can be produced.
   c. It is possible to produce more of one good without producing less of the other.
   d. More of a good cannot be produced

D 4. Which of the following is an example of an economist acting as a policy adviser rather than a scientist?
   a. explaining just the facts
   b. making positive statements
   c. being unable to reach a conclusion
   d. making normative statements

A 5. Which of the following statements best illustrates the concept of positive economics?
   a. When the money supply grows at a faster rate, the average price level will rise.
   b. A system of wage subsidies should be used to reduce poverty.
   c. The economy should grow at a faster rate.
   d. The rate of inflation should be lowered

C 6. Which of the following best describes an economic model?
   a. as confusing as possible
   b. as complex as possible
   c. a simplification of reality
   d. designed for the general public

D 7. A production possibilities frontier shows what kind of information?
   a. the prices at which alternative goods will be produced
   b. the input combinations that allow a country to produce a given amount of output
   c. the tax revenue a government receives at various tax rates
   d. the various combinations of two goods a country can produce given the available factors of production and the available production technology

A 8. The curved shape of the production possibilities frontier can be explained by which of the following?
   a. the fact that some resources are better suited for some types of production than are other resources
   b. constant cost production
   c. scarcity
   d. economic growth

B 9. What kind of statements does positive economics deal with exclusively?
   a. statements that favourably describe a situation
   b. statements that pertain to facts
   c. statements that describe the past
   d. statements that are always true

C 10. According to the text, what are assumptions used for in economics?
   a. to make all economic predictions relevant
   b. to make all economic predictions irrelevant
   c. to make the world easier to understand
   d. to shift the blame to someone else

## True or False?

F 11. The circular flow diagram is a visual model of how the government directs and controls the economy of a nation.

F 12. In the market for factors of production, households buy factors of production and firms sell factors of production.

T 13. Macroeconomics is the study of economy-wide phenomena, including inflation, unemployment, and economic growth.

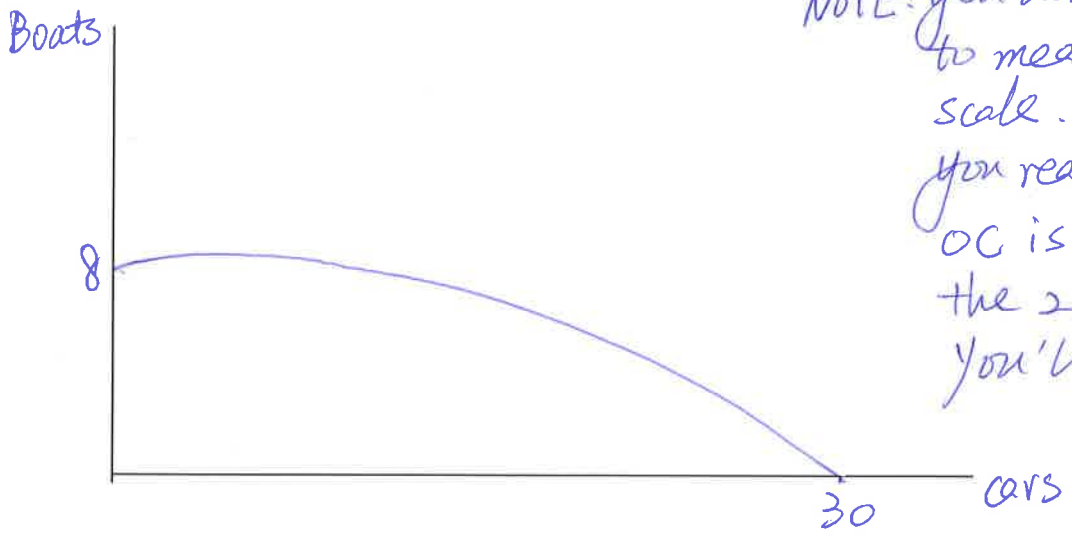
T 14. A normative statement describes how the world ought to be.

15. 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.

NOTE: You don't have to measure the scale. As long as you realize that OC is ↑ & label the 2 intercepts. You'll be fine.




b. What two assumptions is this curve based on?

① All resources are used efficiently

② Technology & resources remain constant

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

d. If the economy is at point C, what is the cost of one more car? 0.33 B/C

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

possible but inefficient

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

① better technology

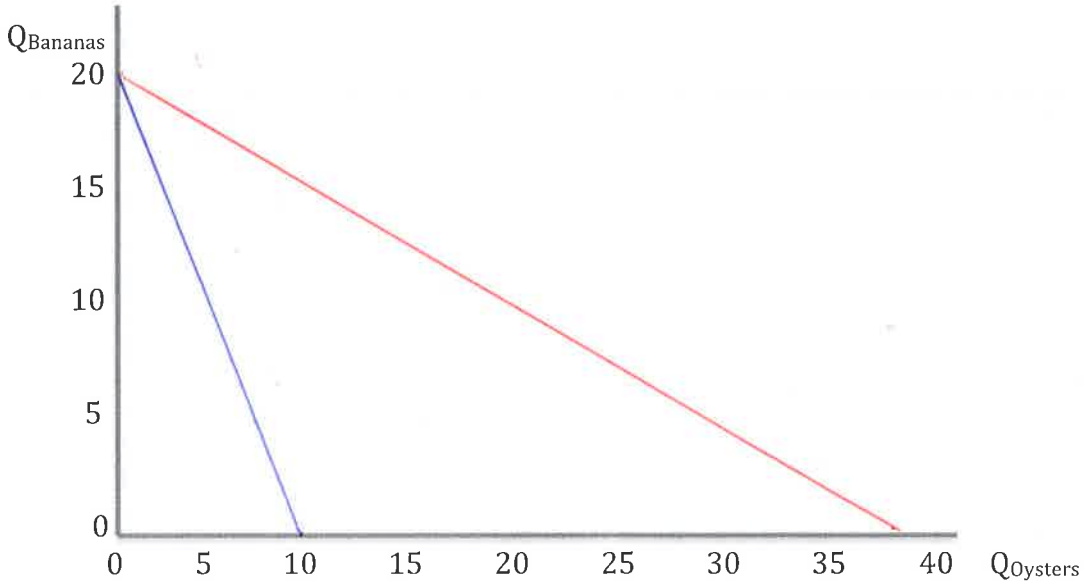
② more resources

16. 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?

OC is constant

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

OC of B = 0.50

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

OC of O = 2B

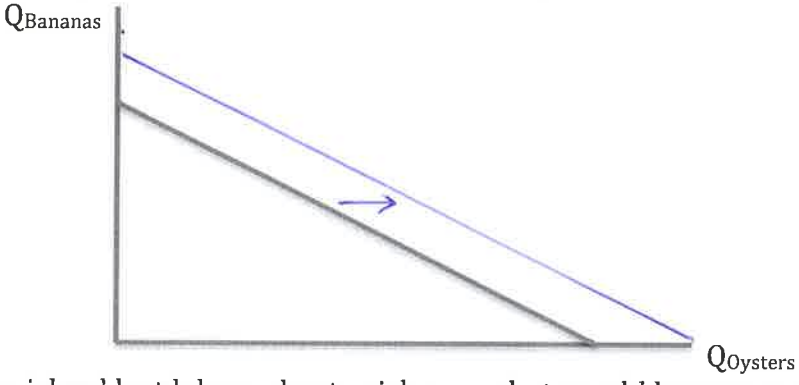
f. With the new technology what is the opportunity cost per banana?

OC of B = 2 0

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

OC of O = 0.5 B

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.