

Interdependence and the Gains from Trade

Problem 1. The most obvious benefit of specialization and trade is that they allow us to

- (a) work more hours per week than we otherwise would be able to work.
- (b) consume more goods than we otherwise would be able to consume.
- (c) spend more money on goods that are beneficial to society, and less money on goods that are harmful to society.
- (d) consume more goods by forcing people in other countries to consume fewer goods.

Problem 2. An economy's production possibilities frontier is also its consumption possibilities frontier

- (a) under all circumstances.
- (b) under no circumstances.
- (c) when the economy is self-sufficient.
- (d) when the rate of tradeoff between the two goods being produced is constant.

Problem 3. Darth Vader can mow a lawn in two hours or he can trim a tree in one hour. Darth Sidious can mow a lawn in three hours or he can trim a tree in two hours.

- (a) Darth Vader has a comparative advantage over Darth Sidious in trimming trees.
- (b) Darth Vader has a comparative advantage over Darth Sidious in mowing lawns.
- (c) Darth Sidious has a comparative advantage over Darth Vader in trimming trees.
- (d) All of the above are correct.

Problem 4. In which of the following cases should the United States produce more noodles than it wants for its own use and trade some of those noodles to Italy in exchange for wine?

- (a) Americans know less than Italians know about cooking noodles.
- (b) The United States has an absolute advantage over Italy in producing noodles.
- (c) Italy has a comparative advantage over the United States in producing wine.
- (d) The opportunity cost of producing a gallon of wine is the same for Italy as it is for the United States.

Problem 5. Suppose Jupiter's opportunity cost of producing one pound of alpaca fleece is 6 quarts of eggnog; and Uranus's opportunity cost of producing one pound of alpaca fleece is 4 quarts of eggnog. What is the range of prices per pound of alpaca fleece that both planets will find to be acceptable terms of trade?

- (a) Between $1/4$ and 6
- (b) Between $1/6$ and 4
- (c) Between 4 and 6
- (d) There are no mutually agreeable terms of trade and we're all doomed

Problem 6. A person can benefit from specialization and trade by obtaining a good at a price that is

- (a) lower than his or her opportunity cost of that good.
- (b) the same as his or her opportunity cost of that good.
- (c) higher than his or her opportunity cost of that good.
- (d) different than his or her opportunity cost of that good.

The Market Forces of Supply and Demand

Problem 7. In a market economy,

- (a) supply determines demand and demand, in turn, determines prices.
- (b) demand determines supply and supply, in turn, determines prices.
- (c) the allocation of scarce resources determines prices and prices, in turn, determine supply and demand.
- (d) supply and demand determine prices and prices, in turn, allocate the economy's scarce resources.

Problem 8. Which of the following characteristics is required for a perfectly competitive market?

- (a) The goods offered for sale are exactly the same.
- (b) There are so many buyers and sellers that no single buyer or seller has any influence over the market price.
- (c) It is difficult for new sellers to enter the market.
- (d) Both (a) and (b) are correct.

Problem 9. A decrease in the price of a good would

- (a) increase the supply of the good.
- (b) increase the quantity demanded of the good.
- (c) give producers an incentive to produce more to keep profits from falling.
- (d) shift the supply curve for the good to the left.

Problem 10. A decrease in demand is represented by a

- (a) movement downward and to the right along a demand curve.
- (b) movement upward and to the left along a demand curve.
- (c) rightward shift of a demand curve.
- (d) leftward shift of a demand curve.

Problem 11. If muffins and bagels are substitutes, a higher price for bagels would result in a(n)

- (a) increase in the demand for bagels.
- (b) decrease in the demand for bagels.
- (c) increase in the demand for muffins.
- (d) decrease in the demand for muffins.

Problem 12. If the demand for a good falls when income falls, then the good is called a(n)

- (a) normal good.
- (b) regular good.
- (c) luxury good.
- (d) inferior good.

Problem 13. Which of the following demonstrates the law of supply?

- (a) When the price of leather belts rose, leather belt sellers increase their quantity supplied of leather belts.
- (b) When car production technology improved, car producers increased their supply of cars.
- (c) When sweater producers expected sweater prices to rise in the near future, they decreased their current supply of sweaters.
- (d) When ketchup prices rose, ketchup sellers decreased their quantity supplied of ketchup.

Problem 14. Today's supply curve for gasoline could shift in response to a change in

- (a) today's price of gasoline.
- (b) the expected future price of gasoline.
- (c) the number of buyers of gasoline.
- (d) All of the above are correct.

Problem 15. Suppose that demand for a good decreases and, at the same time, supply of the good decreases. What would happen in the market for the good?

- (a) Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
- (b) Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
- (c) Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
- (d) Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.