Chapter 2 Questions:

Refer to the information provided in Figure 2.4 below to answer the question(s) that follow.

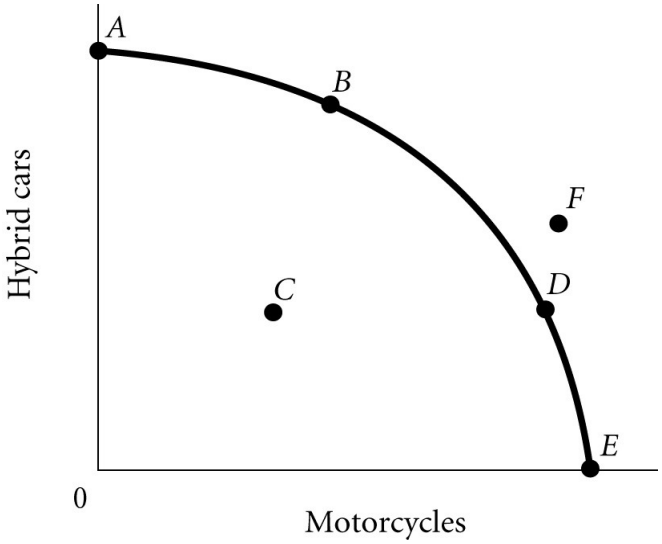

Figure 2.4

1) According to Figure 2.4, the point where only motorcycles are produced is

A) *A*. B) *B*. C) *C*. D) *E*.

Answer: D

2) According to Figure 2.4, the optimal point for the economy is

A) *A*. B) *B*. C) *F*. D) indeterminate from the information given.

Answer: D

3) According to Figure 2.4, which point cannot be produced with the current state of technology?

A) *A* B) *B* C) *C* D) *F*

Answer: D

4) According to Figure 2.4, the point where only hybrid cars are produced is

A) *A*. B) *B*. C) *C*. D) *D*.

Answer: A

5) According to Figure 2.4, a decrease in unemployment may be represented by the movement from

A) *B* to *A*. B) *B* to *D*. C) *C* to *D*. D) *A* to *C*.

Answer: C

6) Refer to Figure 2.4. The economy moves from Point *A* to Point *D*. This could be explained by

A) a reduction in unemployment.

B) an improvement in technology.

C) an increase in economic growth.

D) a change in society's preferences for motorcycles versus hybrid cars.

Answer: D

7) According to Figure 2.4, Point *F*

A) is efficient and attainable.

B) represents under allocation of resources.

C) represents what the people want.

D) cannot be produced with the current state of technology.

Answer: D

8) According to Figure 2.4, an increase in unemployment may be represented by the movement from

A) *B* to *A*. B) *B* to *D*. C) *C* to *D*. D) *A* to *C*.

Answer: D

9) According to Figure 2.4, as the economy moves from Point *A* to Point *E*, the opportunity cost of motorcycles, measured in terms of hybrid cars

A) decreases.

B) increases.

C) remains constant.

D) initially increases, then decreases.

Answer: B

10) The value of the slope of a society's production possibility frontier is called its

A) marginal rate of substitution. B) inflation rate. C) unemployment rate.

D) marginal rate of transformation.

Answer: D

11) A society can produce two goods: donuts and beer. The society's production possibility frontier

is negatively sloped and "bowed outward" from the origin. As this society moves up its production possibility frontier, producing more and more units of donuts, the opportunity cost of producing beer

A) decreases. B) remains constant. C) increases.

D) could decrease or increase depending on the technology.

Answer: C

12) Production inefficiency occurs

A) only when an economy produces underneath its production possibility frontier.

B) only when an economy produces at the wrong point on the production possibility frontier.

C) either when an economy produces underneath the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.

D) only when the economy produces outside the production possibility frontier.

Answer: A

13) The production possibility frontier (PPF) is a graph that shows

A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.

B) the amount of goods and services consumed at various average price levels.

C) the rate at which an economy's output will grow over time if all resources are used efficiently.

D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

Answer: D

1.13 The nation of Billabong is able to produce surfboards a kayaks in combinations represented by the data in the f lowing table. Each number represents thousands of uni Plot this data on a production possibilities graph and explain why the data shows that Billabong experience increasing opportunity costs.

	A	B	C	D	E
Surfboards	0	20	40	60	80
Kayaks	28	24	18	10	0

Billabong experiences increasing opportunity costs because for every surfboard it produces, it must give up an increasing number of kayaks. When Billabong moves from production alternative A to production alternative B, it gives up 4,000 kayaks to gain 20,000 surfboards. When it moves from alternative B to alternative C, it must give up 6,000 kayaks to gain 20,000 surfboards. From alternative C to D, 8,000

kayaks are given up for 20,000 surfboards, and from D to E, 10,000 kayaks are given up for 20,000 surfboards. For each additional 20,000 surfboards Billabong gains, the amount of kayaks that must be given up increases. The increasing opportunity costs are shown on the graph with the concave production possibilities curve.

Input Resources: Labor, Land, Capital

Output Resources: goods and services

*1.6 The countries of Orion and Scorpius are small mountainous nations. Both produce granite and blueberries. Each nation has a labor force of 800. The following table gives production per month for each worker in each country. Assume productivity is constant and identical for each worker in each country.

	Tons of Granite	Bushels of Blueberries
Orion workers	6	18
Scorpius workers	3	12

Productivity of one worker for one month

a. Which country has an absolute advantage in the production of granite? Which country has an absolute advantage in the production of blueberries?
b. Which country has a comparative advantage in the production of granite? of blueberries?
c. Sketch the ppf's for both countries.

1.6 (a) Orion
Orion
(b) Orion: granite
Scorpius: blueberries

Refer to the information provided in Table 2.1 below to answer the following question(s).

Table 2.1

	Krystal	Mark
Writing Poems	8	12
Writing TV Commercials	2	4

1) Refer to Table 2.1. For Krystal, the opportunity cost of writing one TV commercial is

A) 1/4 of a poem. B) 2 poems. C) 4 poems. D) 6 poems.

Answer: C

2) Refer to Table 2.1. For Mark, the opportunity cost of writing one TV commercial is

A) 1/3 of a poem. B) 2 poems. C) 3 poems. D) 8 poems.

Answer: C

3) Refer to Table 2.1. Which of the following statements is *true*?

A) Krystal has a comparative advantage in both writing TV commercials and writing poems.

B) Mark has a comparative advantage in both writing TV commercials and writing poems.

C) Krystal has a comparative advantage in writing TV commercials, and Mark has a comparative advantage in writing poems.

D) Mark has a comparative advantage in writing TV commercials, and Krystal has a comparative advantage in writing poems.

Answer: D

4) Refer to Table 2.1. To maximize total production

A) Krystal should specialize in writing TV commercials, and Mark should specialize in writing poems.

B) Mark should specialize in writing TV commercials, and Krystal should specialize in writing poems.

C) Krystal and Mark should both split their time between writing poems and writing TV commercials.

D) Krystal should write poems and write TV commercials, but Mark should only write poems.

Answer: B

5) Refer to Table 2.1. For Mark, the opportunity cost of writing six TV commercials is _____ poems.

A) 2 B) 18 C) 24 D) an indeterminate number of

Answer: B

Refer to the information provided in Figure 2.5 below to answer the question(s) that follow.

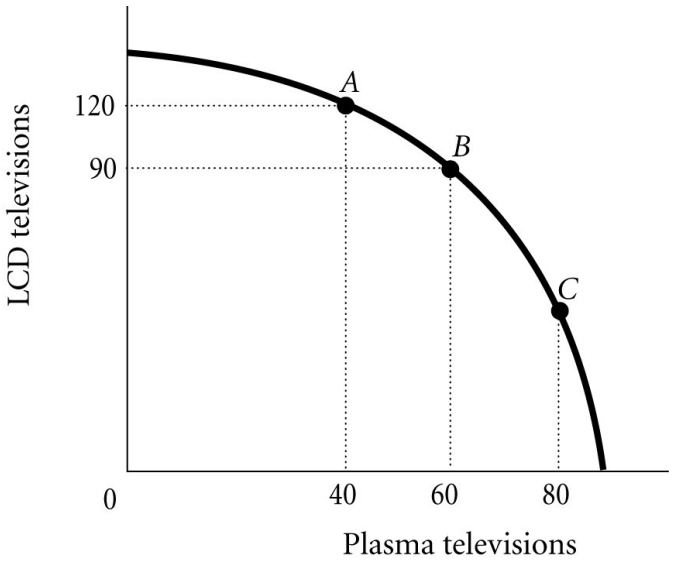

Figure 2.5

1) Refer to Figure 2.5. The economy is currently at Point *A*. The opportunity cost of moving from Point *A* to Point *B* is the

A) 90 LCD televisions that must be forgone to produce 20 additional plasma televisions.

B) 30 LCD televisions that must be forgone to produce 60 additional plasma televisions.

C) 120 LCD televisions that must be forgone to produce 40 additional plasma televisions.

D) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.

Answer: D

2) Refer to Figure 2.5. The marginal rate of transformation in moving from Point *A* to Point *B* is

A) -2/3. B) -1.5. C) -3. D) -30.

Answer: B

3) Refer to Figure 2.5. The economy is currently at Point *B*. The opportunity cost of moving from Point *B* to Point *A* is the

A) 40 plasma TVs that must be forgone to produce 120 additional LCD TVs.

B) 20 plasma TVs that must be forgone to produce 30 additional LCD TVs.

C) 30 LCD TVs that must be forgone to produce 40 additional plasma TVs.

D) 120 LCD TVs that must be forgone to produce 20 additional plasma TVs.

Answer: B

4) Refer to Figure 2.5. The best point for society would be

A) Point *C*, as at this point there are approximately equal amounts of LCD and plasma televisions being produced.

B) either Point *B* or Point *C*, as the total amount being produced at either of these points is approximately the same.

C) at any of the labeled points, as all of the points represent an efficient allocation of resources.

D) indeterminate from this information, as we don't have any information about the society's desires.

Answer: D

Refer to the information provided in Figure 2.6 below to answer the question(s) that follow.

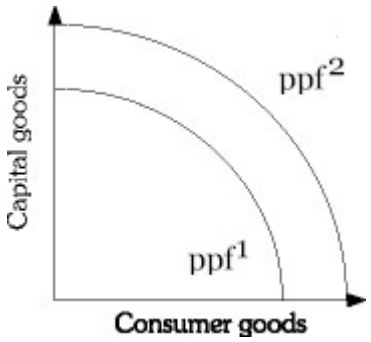

Figure 2.6

1) Refer to Figure 2.6. Economic growth is represented by a

A) shift from ppf^2 to ppf^1. B) shift from ppf^1 to ppf^2. C) movement along ppf^1.

D) movement along ppf^2.

Answer: B

2) Refer to Figure 2.6. If the economy is at ppf^1, a change in consumer preferences would be shown by a

A) shift from ppf^2 to ppf^1. B) movement along ppf^1.

C) movement along ppf^2. D) shift from ppf^1 to ppf^2.

Answer: B