Macroeconomics for Today 9th edition Tucker Test Bank

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1. Which of the following *best* describes the three fundamental economic questions?
   a. What to produce, when to produce, and where to produce.
   b. What time to produce, what place to produce, and how to produce.
   c. What to produce, when to produce, and for whom to produce.
   d. What to produce, how to produce, and for whom to produce.

ANSWER:	d
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Three Fundamental Economic Questions

2. Which of the following is *not* one of the three fundamental economic questions?
   a. What happens when you add to or subtract from a current situation?
   b. For whom to produce?
   c. How to produce?
   d. What to produce?

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Three Fundamental Economic Questions

3. Which of the following *correctly* lists the three fundamental economic questions?
   a. If to produce? Why to produce? When to produce?
   b. If to produce? What to produce? How to produce?
   c. Why to produce? What to produce? How to produce?
   d. What to produce? How to produce? For whom to produce?

ANSWER:	d
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Three Fundamental Economic Questions

4. Three basic decisions must be made by all economies. What are they?
   a. How much will be produced, when it will be produced, and how much it will cost.
   b. What the price of each good will be, who will produce each good, and who will consume each good.
   c. What will be produced, how goods will be produced, and for whom goods will be produced.
   d. How the opportunity cost principle will be applied, if and how the law of comparative advantage will be utilized, and whether the production possibilities constraint will apply.

ANSWER:	c
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Three Fundamental Economic Questions

5. Because of the problem of scarcity, each economic system must make which of the following choices?
   a. How to produce?
   b. What to produce?
   c. For whom to produce?
   d. All of these.

ANSWER: d
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Three Fundamental Economic Questions

6. Which fundamental economic question is *most* closely related to the issues of income distribution and poverty?
   a. The What to Produce question.
   b. The Why to Produce question.
   c. The How to Produce question.
   d. The For Whom to Produce question.

ANSWER: d
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Three Fundamental Economic Questions

7. Which fundamental economic question requires society to choose the technological and resource mix used to produce goods?
   a. The What to Produce question.
   b. The Why to Produce question.
   c. The How to Produce question.
   d. The For Whom to Produce question.

ANSWER: c
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Three Fundamental Economic Questions

8. Opportunity cost:
   a. represents the best alternative sacrificed for a chosen alternative.
   b. has no relationship to the various alternatives that must be given up when a choice is made in the context of scarcity.
   c. represents the worst alternative sacrificed for a chosen alternative.
   d. Represents all possible alternatives sacrificed for a chosen alternative.

ANSWER: a
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

9. The opportunity cost of an action is:
   a. the monetary payment the action required.
   b. the total time spent by all parties in carrying out the action.
   c. the value of the best opportunity that must be sacrificed in order to take the action.
   d. the cost of all alternative actions that could have been taken, added together.

ANSWER: c
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

10. The highest valued alternative that must be given up in order to choose an option is called the:

a. opportunity cost.

b. utility cost.

c. scarcity expense.

d. disutility option.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

11. Which of the following sayings best reflects the concept of opportunity cost?

a. "You can't teach an old dog new tricks."

b. "There is no such thing as a free lunch."

c. "I have a baker's dozen."

d. "There's no business like show business."

ANSWER:	b
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

12. The opportunity cost to a city for using local tax revenues to construct a new park is the:

a. best alternative foregone by building the park.

b. dollar cost of constructing the new park.

c. dollar cost of the old park.

d. increased taxes necessary to pay for maintenance of the new park.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

13. A good or service that is forgone by choosing one alternative over another is called a(n):

a. explicit cost.

b. opportunity cost.

c. historical cost.

d. accounting cost.

ANSWER:	b
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

14. Suppose that the alternative uses of an hour of your time in the evening, ranked from best to worst, are (1) study economics, (2i) watch two half-hour TV sitcoms, (3) play pool, and (4) jog around town. You can only choose one activity. What is the opportunity cost of studying economics for one hour, given this information?

a. Jogging around town.

b. Watching two half-hour TV sitcoms.

c. Playing pool.

d. The sum of watching two half-hour TV sitcoms, playing pool, and doing your laundry.

ANSWER:	b
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Opportunity Cost

15. Opportunity cost is the:
    a. cost incurred when one fails to take advantage of an opportunity.
    b. price paid for goods and services.
    c. cost of the best option forgone as a result of choosing an alternative option.
    d. undesirable aspects of an option.

ANSWER:	c
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

16. The opportunity cost of a purchase is:
    a. the selling price of the good or service.
    b. zero if the good or service satisfies a need.
    c. greater for persons who are rich.
    d. the good or service given up for the good or service purchased.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

17. The opportunity cost of watching television is:
    a. all of the alternative programs that appear on other stations.
    b. zero because there is no money expenditure involved.
    c. the alternative use of the time foregone by watching the program.
    d. zero if it benefits you.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

18. Which of the following does *not* illustrate opportunity cost?
    a. If I study, I must give up going to the football game.
    b. If I buy a computer, I must do without a 35" television.
    c. *More* consumer spending now means *more* spending in the future.
    d. If I spend more on clothes, I must spend less on food.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

19. Which of the following does *not* illustrate opportunity cost?

a. If I study, I must give up going to the football game.

b. If I buy a computer, I must do without a 35" television.

c. If I spend more on clothes, I must spend less on food.

d. All of these illustrate opportunity cost.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Opportunity Cost

20. The opportunity cost of an economic decision is:

a. the best alternative that was sacrificed.

b. the amount of money needed to implement the decision.

c. any land, labor, and capital that are wasted.

d. all options that were lost due to scarcity.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

21. Bill has $10 to spend on a Superman, Batman, or an X-Men T-shirt. Bill buys the Superman T-shirt and the Batman shirt was a close second choice. What is the opportunity cost?

a. The amount he spent, $10.

b. Nothing, since he got his preferred choice.

c. The Batman T-shirt.

d. The X-Men T-shirt.

ANSWER:	c
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Opportunity Cost

22. On a production possibilities curve, the opportunity cost of good X, in terms of good Y, is represented by the:

a. distance to the curve from the vertical axis.

b. distance to the curve from the horizontal axis.

c. movement along the curve.

d. all of these.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Opportunity Cost

23. Which of the following statements is *true*?

a. An opportunity cost is what must be given up in order to get something else.

b. The three fundamental economic questions refer to What to produce? How to produce? and When to produce?

c. The term "investment" refers to the purchase of stocks and bonds and other financial securities.

d. The law of increasing opportunity cost implies that as production of one type of good is expanded then fewer and fewer of other goods must be given up.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

24. The amount of a good that must be given up to produce another good is the concept of:
    a. scarcity.
    b. specialization.
    c. trade.
    d. efficiency.
    e. opportunity cost.

ANSWER: e
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

25. The opportunity cost of an activity means the:
    a. amount of money the activity costs.
    b. number of hours that is required to engage in this activity.
    c. expected gains by engaging in the activity.
    d. amount of other things that must be sacrificed in order to engage in the activity.
    e. expected gains minus the expected costs of engaging in the activity.

ANSWER: d
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

26. In the context of the production possibilities curve, opportunity cost is measured in:
    a. dollars paid for the goods.
    b. the quantity of other goods given up.
    c. the value of the resources used.
    d. changing technology.
    e. units of satisfaction.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

27. Mikki decides to work five hours the night before her economics exam. She earns an extra $75, but her exam score is 10 points lower than it would have been had she stayed home and studied. Her opportunity cost is the:
    a. five hours she worked.
    b. $75 she earned.
    c. 10 points she lost on her exam.
    d. time she could have spent watching television.
    e. guilt she feels about neglecting her economics studies.

ANSWER: c

DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: Opportunity Cost

28. When the opportunity cost of producing carrots increases as more carrots are produced, then:
    a. no more carrots will be produced.
    b. resources are equally suited to the production of carrots and to other goods.
    c. the production possibilities curve is a straight line.
    d. the production possibilities curve becomes positively sloped.
    e. the law of increasing costs is present.

ANSWER: e
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

29. The opportunity cost of your college education is:
    a. c and d.
    b. d and e.
    c. the actual dollar cost of your college education.
    d. your best alternative use of the money you spend for a college education.
    e. money you could have earned working instead of going to college.

ANSWER: b
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: Opportunity Cost

30. The law of increasing costs indicates that the opportunity cost of producing a good:
    a. is proportional to the production of the good.
    b. is constant to the production of the good.
    c. increases as more of the good is produced.
    d. decreases as more of the good is produced.
    e. increases as less of the good is produced.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

31. The amount of a good that is given up to produce another good is:
    a. its dollar cost.
    b. its opportunity cost.
    c. its relative cost.
    d. its absolute cost.
    e. all of these.

ANSWER: b
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Opportunity Cost

Exhibit 2-1 Production possibilities curve data

Consumption Goods	Capital Goods
10	0
9	1
7	2
4	3
0	4

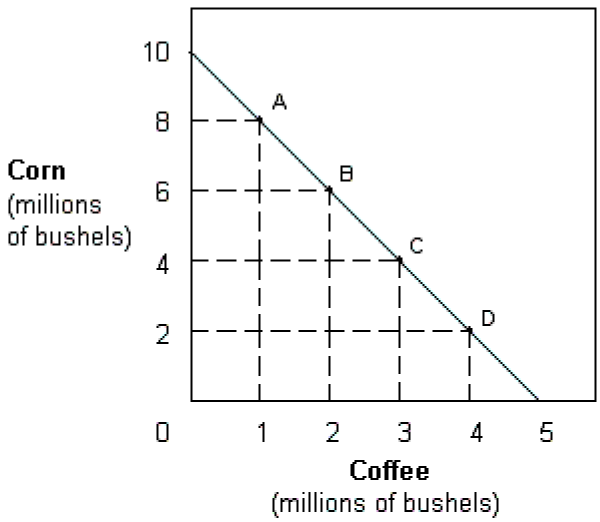
32. In Exhibit 2-1, according to the information, the opportunity cost of producing 3 units of capital is:
    a. 3 units of consumption goods.
    b. 4 units of consumption goods.
    c. 6 units of consumption goods.
    d. 7 units of consumption goods.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

33. In Exhibit 2-1, the opportunity cost of producing the fourth unit of capital is:
    a. 0.
    b. 1 unit of consumption goods.
    c. 2 units of consumption goods.
    d. 4 units of consumption goods.
    e. there is not enough information to estimate the opportunity cost.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-2 Production possibilities curve



34. The production possibilities in Exhibit 2-2 indicates that the opportunity cost of corn is:

a. increasing.
b. decreasing.
c. zero.
d. constant.
e. indeterminate.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

35. In Exhibit 2-2, the slope of the production possibilities curve indicates that the opportunity cost of:

a. coffee is constant.
b. coffee is increasing.
c. coffee is decreasing.
d. corn is increasing.
e. corn is decreasing,

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

36. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:

a. 2 million bushels of corn.
b. 6 million bushels of corn.
c. 8 million bushels of corn.
d. 14 million bushels of corn.
e. it is not possible to determine.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

37. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:

a. the same as moving from A to C.
b. the same as moving from A to D.
c. the same as moving from B to D.
d. the same as moving from B to C.
e. it is not possible to determine.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

38. A farmer is deciding whether or not to add fertilizer to his or her crops. If the farmer adds 1 pound of fertilizer per acre, the value of the resulting crops rises from $80 to $100 per acre. According to marginal analysis, the farmer should add fertilizer if it costs less than:

a. $12.50 per pound.

b. $20 per pound.

c. $80 per pound.

d. $100 per pound.

ANSWER:	b
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Marginal Analysis

39. Which word *best* completes the following sentence? A rational decision maker always chooses the option for which marginal benefit is __________ marginal cost.

a. less than

b. equal to

c. unrelated to

d. more than

ANSWER:	d
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Marginal Analysis

40. In economics, the term marginal refers to:

a. the change or difference from a current situation.

b. man-made resources as opposed to natural resources.

c. the satisfaction a consumer receives from a good.

d. holding everything else constant in the analysis.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Marginal Analysis

41. When deciding whether to buy a second car, marginal analysis indicates that the purchaser should compare the:

a. benefits expected from two cars with the cost of both.

b. additional benefits expected from a second car with the cost of the two cars.

c. dollar cost of the two cars with the potential income that the cars will generate.

d. additional benefits of the second car with the additional cost of the second car.

ANSWER:	d
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Marginal Analysis

42. While waiting in line to buy two tacos at 80 cents each and a medium drink for 90 cents, Jordan notices that the restaurant has a value meal containing three tacos and a medium drink all for $3. For Jordan, the marginal cost of the third taco would be:

a. zero.

b. 50 cents.

c. 80 cents.

d. $1.

ANSWER:	b
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Marginal Analysis

43. While waiting in line to buy a cheeseburger for $2 and a drink for 75 cents, Aaron notices that the restaurant has a value meal containing a cheeseburger, drink, and French fries for $3. For Aaron, the marginal cost of purchasing the French fries:

a. would be zero.

b. would be 25 cents.

c. would be 50 cents.

d. cannot be determined because the information about the price of the French fries is not provided.

ANSWER:	b
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Marginal Analysis

44. While waiting in line to buy one cheeseburger for $1.50 and a medium drink for $1.00, Sally notices that she could get a value meal that contains both the cheeseburger and medium drink and also a medium order of fries for $2.75. She thinks to herself, "Is it worth the extra 25 cents to get the medium fries?" To an economist, Sally's decision is an example of:

a. marginal analysis.

b. basing decisions on total, rather than marginal, value.

c. an unintended consequence.

d. the fallacy of composition.

ANSWER:	a
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Marginal Analysis

45. Just before class, Jim tells Stuart, "Stuart, you shouldn't skip class today because you have paid tuition to enroll in the class." Stuart ignores Jim's advice, and instead makes the decision of whether to attend based on the importance to his grade that he feels he'd be missing that day in class relative to his value of the extra time he could have to finish the video game he is playing. To an economist, Stuart is:

a. using marginal analysis.

b. ignoring the total value of attending class.

c. ignoring the concept of opportunity cost.

d. irresponsible.

ANSWER:	a
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS:	Marginal Analysis

46. Susan wishes to buy gasoline and have her car washed. She finds that if she buys 9 gallons of gasoline at $1.50 per gallon, the car wash costs $1, but if she buys 10 gallons of gasoline, the car wash is free. For Susan, the marginal cost of the tenth gallon of gasoline is:

a. zero.

b. 50 cents.

c. $1.

d. $1.50.

ANSWER: b

DIFFICULTY: Challenging

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

TOPICS: Marginal Analysis

47. Ralph wants to buy some milk and a box of cereal. If Ralph buys 2 quarts of milk at $1 per quart, the box of cereal costs 75 cents. If he buys 3 quarts of milk at $1 per quart, the box of cereal is free. For Ralph, the marginal cost of the third quart of milk is:

a. zero.

b. 25 cents.

c. 75 cents.

d. $1.

ANSWER: b

DIFFICULTY: Challenging

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

TOPICS: Marginal Analysis

48. A local restaurant offers an "all you can eat" Sunday brunch for $12. Susan eats four servings, but leaves half of a fifth helping uneaten. Why?

a. Her marginal value of a serving of brunch has fallen below $12.

b. Her marginal value of a serving has fallen below $2.36 ($12 divided by 5 servings).

c. Her marginal value of food has fallen to zero.

d. The total value she places on brunch today exactly equals $12.

ANSWER: c

DIFFICULTY: Challenging

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

TOPICS: Marginal Analysis

49. According to marginal analysis, you should spend more time studying economics if the extra benefit from an additional hour of study:

a. is positive.

b. outweighs the extra cost.

c. exceeds the benefits of the previous hour of study.

d. will raise your exam score.

ANSWER: b

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

TOPICS: Marginal Analysis

50. The principle that the opportunity cost increases as the production of one output expands along the production possibilities curve is the:

a. law of increasing opportunity costs.

b. law of supply.

c. law of demand.

d. law of diminishing returns.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Law of Increasing Opportunity Costs

51. Which word or phrase *best* completes the following sentence? Marginal analysis means evaluating _________ changes from a current situation.

a. positive or negative.

b. infinite.

c. alternating.

d. maximum.

ANSWER:	a
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Marginal Analysis

52. Which of the following is an example of an organization using marginal analysis?

a. A hotel manager calculating the average cost per guest for the past year.

b. A farmer hoping for rain.

c. A government official considering what effect an increase in military goods production will have on the production of consumer goods.

d. A business calculating economic profits.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Marginal Analysis

53. A production possibilities curve shows the various combinations of two outputs that:

a. consumers would like to consume.

b. producers would like to produce.

c. an economy can produce.

d. an economy should produce.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

54. If an economy is operating at a point inside the production possibilities curve,

a. its resources are not being used efficiently.

b. the curve will begin to shift inward.

c. the curve will begin to shift outward.

d. This is a trick question because an economy cannot produce at a point inside the curve.

ANSWER:	a
DIFFICULTY:	Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

55. Which of the following most accurately indicates the implications of an economy's production possibilities curve?
   a. If all the resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
   b. If all the resources of an economy are being used efficiently, it is generally possible to produce more of one good without having to sacrifice the production of other goods.
   c. Over time, it is generally impossible for a country to expand its production of goods.
   d. An economy will automatically move toward a point that lies outside of the production possibilities constraint unless proper government policy constrains production.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

56. Which of the following is true of the production possibilities curve?
   a. It assumes a fixed level of technology.
   b. It assumes resources are fixed.
   c. It assumes resources are fully employed.
   d. All of these are correct.

ANSWER: d
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

57. After the terrorist attacks on September 11, 2001, the United States began devoting substantial resources toward the War on Terrorism, homeland security, and relief efforts. As long as our resources were being used efficiently, the production possibilities curve would suggest that:
   a. we will have to give up the production of other goods that could have been produced with these resources.
   b. we will be able to produce the same amount of other goods as before.
   c. the military spending will result in an outward shift in the production possibilities curve but that the relief effort will result in an offsetting inward shift.
   d. we will be unable to devote the resources necessary toward these efforts unless there is an improvement in technology.

ANSWER: a
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

58. A point outside the production possibilities curve represents a combination of goods that is:
   a. inefficient.
   b. efficient.
   c. unattainable.
   d. attainable.

ANSWER: c
DIFFICULTY: Easy

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

59. Which of the following will be most likely to cause the production possibilities curve for a country to shift inward?
   a. an increase in the labor force
   b. an increase in unemployment
   c. development of an improved technological method of production
   d. a decrease in the stock of physical capital

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

60. In Europe during the 14th century, the Black Plague killed 24 million people or close to 37 percent of the population. How would this affect the production possibilities curves for the countries of Europe at that time?
   a. The production possibilities curves for these countries would have shifted outward.
   b. The production possibilities curves for these countries would have shifted inward.
   c. The production possibilities curves for these countries would have been unaffected.
   d. This would have been illustrated by a movement along the production possibilities curves for these countries, but it would not have shifted them.

ANSWER: b
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

61. Which of the following would be *least* likely to cause the production possibilities curve to shift outward?
   a. a decreased desire for leisure by workers in the economy.
   b. an invention that requires fewer resources to produce a good.
   c. a shift in consumer preferences that causes expansion in the output of one product and a decline in output of other products.
   d. an expansion in the man-made productive resources available to the economy as the result of a high rate of investment.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

62. Using a production possibilities curve, a technological advance that increases the amount of output for the same amount of inputs would be illustrated as a(n):
   a. flattening of the curve.
   b. movement from one point to another point along the curve.
   c. outward shift of the curve.
   d. movement from a point on the curve to a point inside the curve.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

63. The production possibilities curve shows that:

a. some of one good must be given up to get more of another good in an economy that is operating efficiently.

b. no output combination is impossible.

c. an economy that is operating efficiently can have more of one good without giving up some of another good.

d. scarcity can be eliminated.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

64. Any point on the production possibilities curve illustrates:

a. minimum production combinations.

b. maximum production combinations.

c. economic growth.

d. a nonfeasible production combination.

ANSWER: b
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

65. Production possibilities curve analysis includes the idea of:

a. opportunity cost.

b. scarcity.

c. maximum production choices.

d. all of these.

ANSWER: d
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

66. An efficient economy:

a. uses available resources fully.

b. uses the best division of labor.

c. produces an output combination at some point along the production possibility curve.

d. all of these.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

67. A production possibility graph slopes down because of:

a. the law of increasing costs.

b. nonhomogeneous resources.

c. inefficiency.

d. improper output mix.

e. unemployment.

ANSWER: b

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

68. The production possibility curve is bowed outward from the origin because of:
    a. the law of increasing opportunity costs.
    b. the finite nature of the resource base.
    c. inefficiency.
    d. improper output mix.
    e. unemployment.

ANSWER: a

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

69. The production possibilities curve demonstrates the basic economic principle that:
    a. market-based economies are more efficient.
    b. supply will determine demand in the economy.
    c. the production of more capital goods this year will cause the economy to produce less consumption goods next year.
    d. to produce more of any one thing, assuming full employment, the economy must produce less of something else.
    e. to produce more consumption goods this year requires the production of more capital goods this year.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

70. A production possibilities curve shows the various:
    a. prices that can be charged for capital and consumption goods.
    b. combinations of prices and outputs that can be produced.
    c. combinations of goods the economy has the capacity to produce.
    d. combinations of resources and prices that the economy can produce.

ANSWER: c

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

71. A production possibilities curve has "good X" on the horizontal axis and "good Y" on the vertical axis. On this diagram, the opportunity cost of good X, in terms of good Y, is represented by the:
    a. distance to the curve from the horizontal axis.
    b. distance to the curve from the vertical axis.
    c. distance from the origin to the curve.
    d. change in Y for each change in X along the curve.

ANSWER: d
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

72. Of factors which affect any economy's production potential, the *best* two listed below are:
   a. resources and technology.
   b. prices and outputs.
   c. wages and prices.
   d. taxes and prices.
   e. resources and prices.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

73. The various combinations of goods and services that can be produced, when an economy uses its available resources and technology efficiently, is called:
   a. scarcity.
   b. opportunity cost.
   c. unlimited production.
   d. capital accumulation.
   e. production possibilities.

ANSWER: e
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

74. A production possibilities curve shows the:
   a. dollar costs of producing two different goods.
   b. amounts of labor and capital needed to produce one good.
   c. various combinations of goods that can be produced.
   d. prices of different goods that are produced in an economy.
   e. inefficient use of available resources and technology.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

75. What shape is the production possibilities curve usually expected to exhibit?
   a. Upward-sloping.
   b. Bowed out.
   c. Bowed in.
   d. Straight line.
   e. U-shaped.

ANSWER: b

DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

76. When the production possibilities curve is bowed out, resources are:
    a. equally well-suited to production of both goods.
    b. not being used efficiently.
    c. not equally suited to the production of both types of goods.
    d. increasing as more of one good is produced.
    e. of an inferior quality.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

77. When an economy's resources are not fully employed, then it must be *true* that the:
    a. production point is located outside and to the right of the production possibilities curve.
    b. production point is located along the production possibilities curve.
    c. production point is located inside and to the left of the production possibilities curve.
    d. production possibilities curve shifts to the right.
    e. production possibilities curve shifts to the left.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

78. The production possibilities curve shows different combinations of goods that:
    a. can be consumed by households.
    b. can be consumed by firms.
    c. can be produced with the available technology.
    d. are produced and consumed by firms.
    e. are bought and sold in the market.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

79. The production possibilities curve illustrates all of the following concepts *except*:
    a. the law of increasing costs.
    b. unlimited wants.
    c. scarcity.
    d. opportunity cost.
    e. availability of resources.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

80. The production possibilities curve depicts the various combinations of two goods that can be:

a. interchanged among two countries.
b. produced with a given technology.
c. consumed with a given quantity of resources.
d. produced with increments in resources and changes in technology.
e. consumed as the resources increase.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

81. Efficient production means producing:

a. less than feasible output for a given amount of resources.
b. more than feasible output for a given amount of resources.
c. the maximum feasible output for a given amount of resources.
d. no more than what is needed.
e. in excess of what is needed.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

82. The law of increasing costs holds that the opportunity cost:

a. of a good decreases as the quantity of the good produced increases.
b. of a good is proportional to the resources used in its production.
c. of a good increases as more of the good is produced.
d. of a good does not change with the resources used its production.
e. changes as more of the good is produced.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

83. If an economy is producing at full employment, it means that:

a. there are idle resources in this economy.
b. the production is not efficient.
c. the economy is producing along its production possibilities curve.
d. the economy is producing at a point that is to the left of the production possibilities curve.
e. the economy is producing at a point that is to the right of the production possibilities curve.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

84. Which of the following is *not true* about a production possibilities curve? The curve:

a. indicates the combinations of goods and services that can be produced with given technology.
b. indicates the efficient production points.
c. indicates the non-efficient production points.
d. indicates the feasible (attainable) and non-feasible production points.
e. indicates which production point will be chosen.

ANSWER:	e
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

85. Which of the following is *true* about the production possibilities curve when a technological progress occurs? The curve:

a. shifts inwards to the left.
b. becomes flatter at one end and steeper at the other end.
c. becomes steeper.
d. shifts outward to the right.
e. does not change.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

86. A point inside a production possibilities curve reflects:

a. the law of increasing costs.
b. technological innovation.
c. less than full use of resources and technology.
d. economic efficiency.
e. a way to increase future economic growth.

ANSWER:	c
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

87. A point outside a production possibilities curve reflects:

a. efficiency.
b. specialization.
c. inefficiency.
d. unemployment.
e. an impossible choice.

ANSWER:	e
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

88. Any point inside the production possibility curve is:

a. efficient.
b. nonfeasible.
c. inefficient.
d. optimal.

ANSWER: c
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

89. Using a production possibilities curve, an economy that produces an output combination less than the maximum possible is depicted by a point located:
a. at the top corner of the curve.
b. near the middle of the curve.
c. at the bottom corner of the curve.
d. outside the curve.
e. inside the curve.

ANSWER: e
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

90. One of the assumptions underlying the production possibilities curve for any given economy is that:
a. the state of technology changes.
b. there is an unlimited supply of resources.
c. there is full employment of resources when the economy is on the curve.
d. goods can be produced outside the curve.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

91. Which of the following would be *most* likely to cause the production possibilities curve for computers and education to shift outward?
a. A choice of more computers and less education.
b. A choice of more education and less computers.
c. A reduction in the labor force.
d. An increase in the quantity of resources.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

92. Given a production possibilities curve, a point:
a. inside the curve represents unemployment.
b. on the curve represents full employment.
c. outside the curve is currently unattainable.

d. all of these.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

93. All points on the production possibilities curve are:
  a. unattainable.
  b. fair.
  c. efficient.
  d. optimal.

ANSWER: c
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

94. As production of a good increases, opportunity costs rise because:
  a. there will be more inefficiency.
  b. people always prefer having more goods.
  c. of inflationary pressures.
  d. workers are not equally suited to all tasks.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

95. If society leaves some of its resources unemployed, then it will be operating at a point:
  a. beneath its production possibilities curve.
  b. at a corner of its production possibilities curve.
  c. anywhere along its production possibilities curve.
  d. outside of its production possibilities curve.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

96. The law of increasing opportunity costs causes the production possibilities curve to:
  a. be a straight line.
  b. slope upwards.
  c. have a bowed-out shape.
  d. shift inward.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

97. Along a production possibilities curve showing capital and consumption goods production, which of the following pairs are being held fixed?

a. Unemployment and capital goods production.

b. Number of resources and consumption goods production.

c. Composition of the economy's output and number of resources.

d. Capital and consumption goods production.

e. Technology and number of resources.

ANSWER: e

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

Exhibit 2-3 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	20	18	14	8	0

98. According to the data given in Exhibit 2-3, the production of 1 unit of capital goods and 14 units of consumer goods:

a. is possible but would be inefficient.

b. may be a result of unemployment.

c. may be a result of unused natural resources.

d. all of these.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

Exhibit 2-4 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	10	20	30	40
Consumer goods	200	180	140	80	0

99. According to the data given in Exhibit 2-4, the production of 140 units of consumer goods and 10 units of capital goods:

a. is possible but would be inefficient.

b. may be a result of unemployment.

c. may be a result of unused natural resources.

d. all of the above.

e. none of the above.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

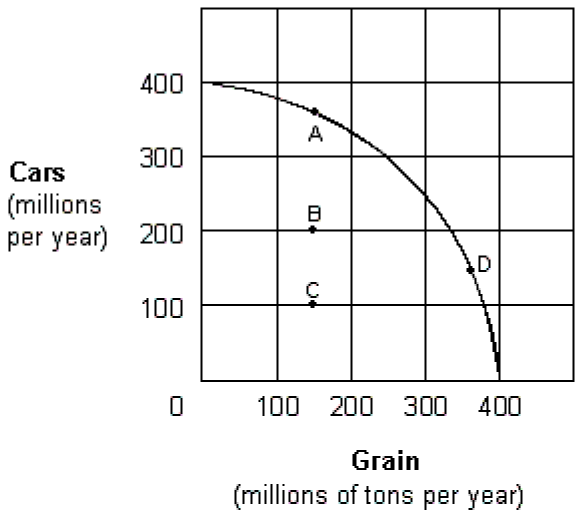
100. According to the data in Exhibit 2-4, a total output of 140 units of consumer goods and 10 units of capital goods would:

a. be unobtainable in this economy.

b. be an efficient way of using the economy's scarce resources.
c. result in the maximum use of the economy's labor force.
d. result in a less than maximum rate of growth for this economy.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

Exhibit 2-5 Production possibilities curve



101. In Exhibit 2-5, movement between which of the following points represents an increase in economic efficiency?
a. A to C.
b. C to D.
c. D to B.
d. A to B.
e. A to D.

ANSWER:	b
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

Exhibit 2-6 Production possibilities curve data

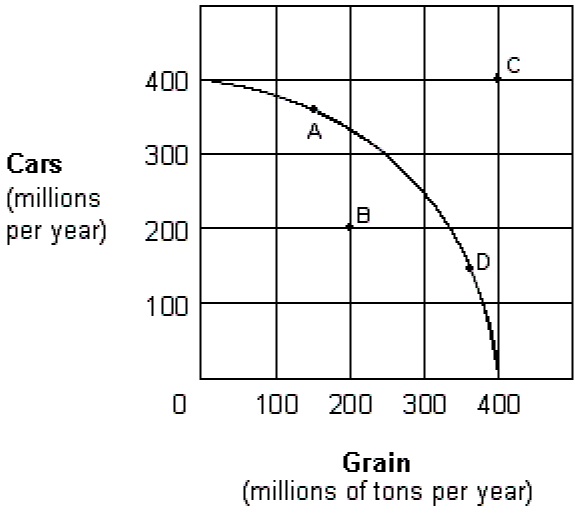
	A	B	C	D	E	F
Capital goods	150	140	120	90	50	0
Consumer goods	0	20	40	60	80	100

102. In Exhibit 2-6, the concept of increasing opportunity costs is represented by the fact that:
a. the quantity of capital goods produced must be less than 150.
b. the quantity of consumer goods is constant for each change in the quantity of capital goods produced.
c. greater amounts of capital goods must be sacrificed to produce each additional unit of consumer goods.
d. the amount of consumer goods produced must be greater than zero.

ANSWER:	c
DIFFICULTY:	Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

Exhibit 2-7 Production possibilities curve



103. For the economy shown in Exhibit 2-7, which of the following is *true* when the economy is at point A?
   a. More cars are being produced than are needed.
   b. There must be resources that are not being used fully.
   c. Some car production must be forgone in order to produce more grain in the same period.
   d. Increased grain production would be impossible.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

104. For the economy shown in Exhibit 2-7 to operate at point C, it must:
   a. be willing to lower the price of grain.
   b. use its given resources more efficiently than it would at point A.
   c. experience resource unemployment.
   d. experience an increase in its resources and/or an improvement in its technology.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-8 Production possibilities curve data

	A	B	C	D	E	F
Capital goods	15	14	12	9	5	0
Consumer goods	0	2	4	6	8	10

105. As shown in Exhibit 2-8, the concept of increasing opportunity costs is reflected in the fact that:
   a. the quantity of consumer goods produced can never be zero.
   b. the labor force in the economy is homogeneous.

c. greater amounts of capital goods must be sacrificed to produce an additional 2 units of consumer goods.
d. a graph of the production data is a downward-sloping straight line.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

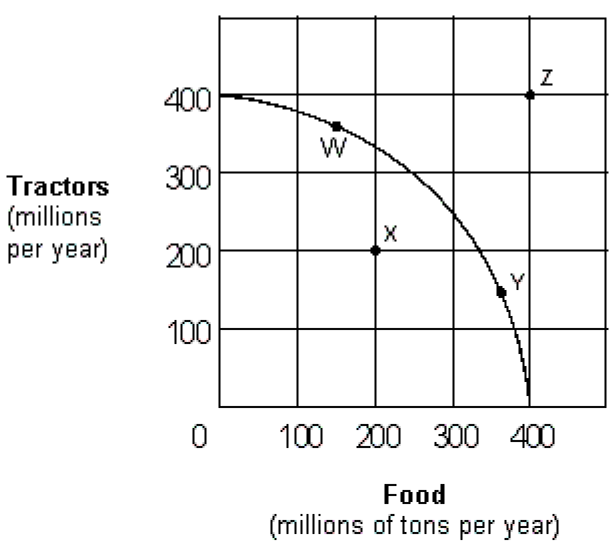
106. As shown in Exhibit 2-8, a total output of 0 units of capital goods and 10 units of consumer goods is:
a. the maximum rate of output for this economy.
b. an inefficient way of using the economy's scarce resources.
c. the result of maximum use of the economy's labor force.
d. unobtainable in this economy.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

107. As shown in Exhibit 2-8, a total output of 14 units of consumer goods and 1 unit of capital goods is:
a. the result of maximum use of the economy's labor force.
b. an efficient way of using the economy's scarce resources.
c. unobtainable in this economy.
d. less than the maximum rate of output for this economy.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-9 Production possibilities curve



108. If the economy represented in Exhibit 2-9 is operating at Point W:
a. no tractor product must be forgone to produce more food in the current period.
b. resources are not fully used.
c. some tractor production must be forgone to produce more food in the current period.

d. increased food production would be impossible.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

109. Which of the following moves from one point to another in Exhibit 2-9 would represent an increase in economic efficiency?

a. Z to W.
b. W to Y.
c. W to X.
d. X to Y.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

110. Movement along this production possibilities curve shown in Exhibit 2-9 indicates:

a. that labor is not equally productive or homogeneous (nonhomogeneous).
b. decreasing opportunity costs.
c. all inputs are homogeneous.
d. all of these.

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-10 Production possibilities curve data

	A	**B**	**C**	**D**	**E**
Capital goods	0	1	2	3	4
Consumption goods	25	23	19	13	0

111. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. If this economy chooses the combination of goods at point A,

a. only capital goods are being produced.
b. every resource in the economy is utilized in the production of capital goods.
c. no capital goods are being used as factors of production.
d. every resource in the economy is being used in the production of consumption goods.
e. no consumption goods are being produced.

ANSWER: d
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

112. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. The first unit of capital goods will cost the economy _____ units of consumption goods.

a. 25

b. 2
c. 1
d. 23
e. 11

ANSWER: b
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

113. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. As additional units of capital goods are being produced, the number of consumption goods produced must ____, because ____.
a. increase; the production possibility table shows only the maximum efficiency points
b. increase; of the law of increasing costs
c. decrease; of the law of increasing costs
d. decrease; of the finite nature of the resource base
e. increase; capital goods will assist in the production of consumer goods

ANSWER: d
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

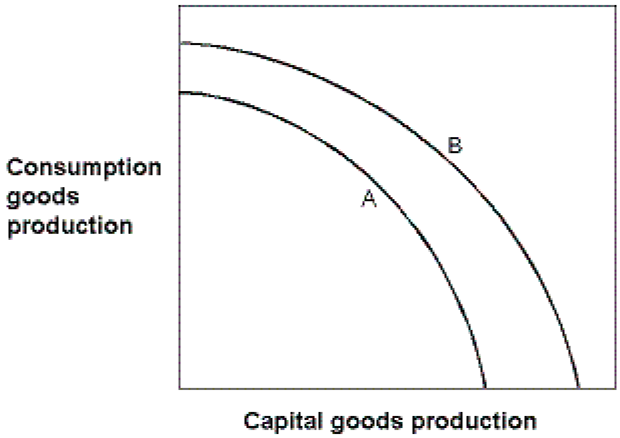
114. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. The second unit of capital goods production will cost ____ units of consumption goods, and the third unit of capital goods production will cost ____ units of consumption goods.
a. 4; 6
b. 25; 23
c. 23; 19
d. 1; 23
e. 2; 19

ANSWER: a
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

115. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. As additional units of capital goods are produced, the opportunity cost in terms of sacrificed units of consumption goods ____ because of ____.
a. decreases; greater efficiency in production
b. increases; decreasing opportunity cost
c. increases; the law of increasing costs
d. increases; greater efficiency in production
e. decreases; the law of increasing costs

ANSWER: c
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-11 Production possibilities curves



116. In Exhibit 2-11, which of the following could have caused the production possibilities curve of an economy to shift from the one labeled A to the one labeled B?

 a. A major natural disaster
 b. An increase in consumption goods production this year
 c. An advance in technology
 d. An increase in unemployment
 e. A decrease in consumption goods production this year

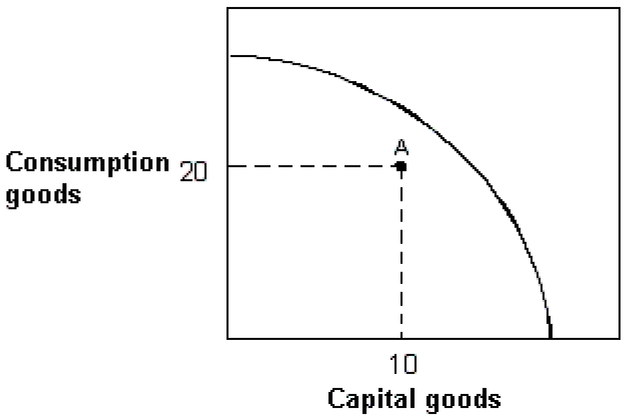
ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

117. In Exhibit 2-11, which of the following could have caused the production possibilities curve to shift from the one labeled B to the one labeled A?

 a. A major natural disaster.
 b. An increase in resources.
 c. An advance in technology.
 d. A decrease in unemployment.
 e. An improvement in literacy.

ANSWER:	a
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

Exhibit 2-12 Production possibilities curve



118. In Exhibit 2-12, suppose an economy with the given production possibilities curve is currently located at point A in the figure. Which of the following statements is *false*?

a. This economy could produce more of both capital and consumption goods.

b. This economy is experiencing full employment.

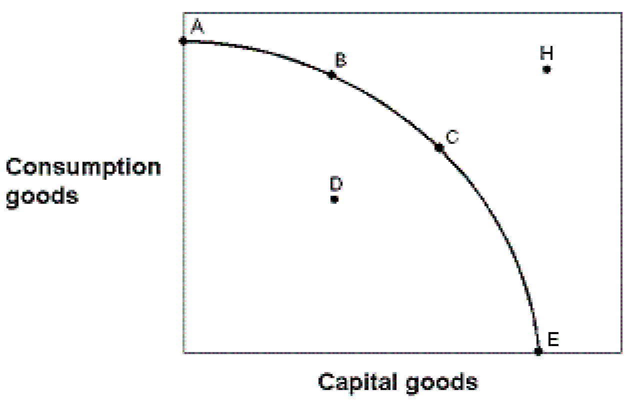
c. This economy could produce more capital goods while holding fixed the number of consumption goods produced.

d. This economy could produce more consumption goods while holding fixed the number of capital goods produced.

e. Not every resource in this economy is being utilized

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Source of Economic Growth

Exhibit 2-13 Production possibilities curve



119. In Exhibit 2-13, in terms of efficiency:

a. point A is preferred to point B.

b. point A is preferred to point E.

c. point A is preferred to point D.

d. point B is preferred to point A.

e. point B is preferred to point C.

ANSWER: c
DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

120. In Exhibit 2-13, if the economy decides to locate at point E, then:
 a. this is the best choice for this economy.
 b. the maximum number of consumption goods is being produced.
 c. the economy has not achieved full employment.
 d. the economy could not survive because no food is being produced.
 e. the economy has not achieved maximum efficiency.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

121. In Exhibit 2-13, the combination of goods given by point H could:
 a. never be achieved by this economy.
 b. be achieved today if the economy achieved full employment.
 c. be achieved today if the economy achieved maximum efficiency.
 d. not be achieved today.
 e. be achieved today with the proper allocation of resources.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

122. In Exhibit 2-13, which of the following is *not true* regarding point H? Point H:
 a. cannot be achieved by this economy today.
 b. could be achieved today if the economy only achieved full employment.
 c. could be achieved in the future by an enlargement of the economy's resource base.
 d. could be achieved in the future by an advancement in technology.
 e. could be achieved in the future by growth in the economy.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

123. In Exhibit 2-13, point H is:
 a. achievable with today's resource base.
 b. not achievable today because the economy has not achieved full employment.
 c. not achievable today because the economy is not at its maximum point of efficiency.
 d. not achievable today because of waste.
 e. not achievable today because of inadequate production capacity.

ANSWER: e
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

124. In Exhibit 2-13, point D:

a. is preferred to point A.

b. is a point of maximum production for this economy this year.

c. is not achievable this year because of limited resources.

d. could result from some degree of unemployment of inefficiency.

e. is preferred to point H.

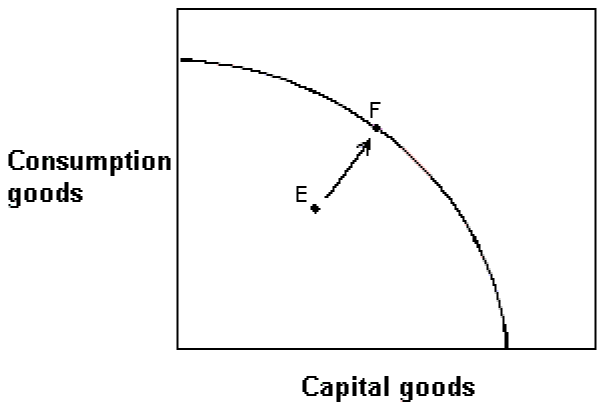
ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

Exhibit 2-14 Production possibilities curve



125. In Exhibit 2-14, this economy was located at point E but has now moved to point F.

a. This would be an impossible move because the economy does not have sufficient resources.

b. The rate of unemployment in this economy would have increased.

c. Consumption goods production has increased, but capital goods production has decreased.

d. The economy has decreased unemployment, but some degree of unemployment still exists.

e. This economy has achieved full employment.

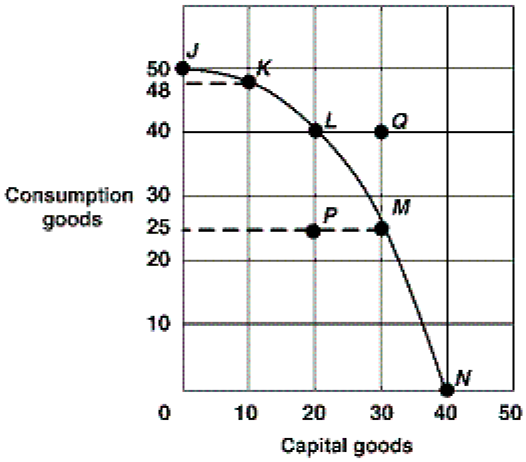
ANSWER: e

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Production Possibilities Curve

Exhibit 2-15 Production possibilities curve



126. In Exhibit 2-15, if the economy moves from point L to point M, the opportunity cost of producing 10 more capital goods is:

a. 40 less consumer goods.

b. 25 less consumer goods.

c. 15 less consumer goods.

d. 15 more consumer goods.

e. 25 more consumer goods.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Law of Increasing Opportunity Costs

127. In Exhibit 2-15, if the economy produces no capital goods, what is the maximum number of consumer goods that can be produced?

a. 50.

b. 48.

c. 40.

d. 25.

e. 0.

ANSWER:	a
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

128. In Exhibit 2-15, the production possibilities curve demonstrates:

a. changing prices.

b. economic growth.

c. decreases in resources.

d. the law of increasing opportunity costs.

e. changing technology.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: The Law of Increasing Opportunity Costs

129. In Exhibit 2-15, the economy will experience the *most* future economic growth if it chooses what point now?
   a. J.
   b. K.
   c. M.
   d. N.
   e. P.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

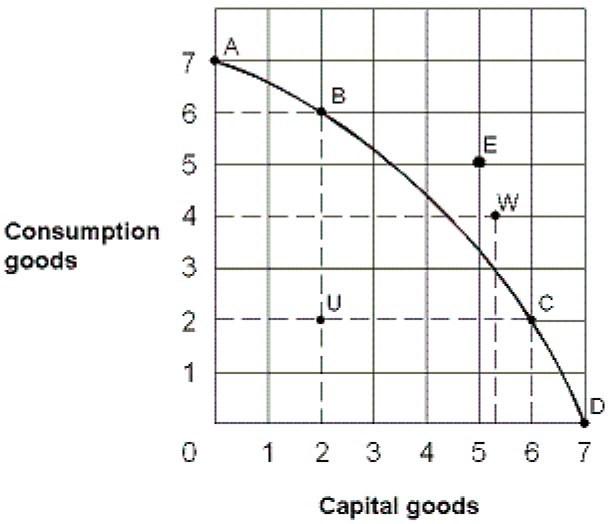
130. In Exhibit 2-15, inefficient resource use is shown by which of the following points?
   a. N.
   b. J.
   c. Q.
   d. L.
   e. P.

ANSWER: e
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

131. In Exhibit 2-15, what can we conclude about point Q?
   a. It is efficient.
   b. It is inefficient.
   c. It is unattainable.
   d. It gives maximum future growth.
   e. It shows underemployed resources.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

Exhibit 2-16 Production possibilities curve



132. From the information in Exhibit 2-16, which of the following points on the production possibilities curve are attainable with the resources and technology currently available?

a. A, B, C, E, U
b. A, B, C, D, W
c. E, U, W
d. B, C, D, U
e. A, B, C, E

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

133. In Exhibit 2-16, which of the following points on the production possibilities curve are unattainable with the resources and technology currently available?

a. A, B, C, U
b. A, B, C, D, U
c. E and W
d. B, C, D, U
e. A, B, C, D

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	The Production Possibilities Curve

134. In Exhibit 2-16, which of the following points on the production possibilities curve are efficient production points?

a. A, B, C, U
b. A, B, C, D, U
c. E, U, W
d. B, C, D, U
e. A, B, C, D

ANSWER:	e

DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

135. In Exhibit 2-16, to move from U to B, the opportunity cost:

a. would be 4 units of consumption goods.
b. would be 2 units of capital goods.
c. would be zero.
d. would be 5 units of capital goods.
e. cannot be estimated.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Law of Increasing Opportunity Costs

136. In Exhibit 2-16, which of the following points on the production possibilities curve are full-employment production points?

a. A, B, C, D
b. A, B, C, D, U
c. E, U, W
d. B, C, D, U
e. A, B, C, U

ANSWER: a
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

137. Suppose that an economy can produce various combinations of fish and bread. If more people with strong fishing skills
became employed in this economy, how would the production possibilities curve (PPC) change?

a. The PPC would shift outward on the fish axis, but would not change on the bread axis.
b. The PPC would shift outward equally along both the fish and the bread axes.
c. The PPC would shift inward on the bread axis, but would not change on the fish axis.
d. The PPC would shift inward equally along both the fish and the bread axes.

ANSWER: a
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

138. Over time, an increase in a nation's stock of physical capital will:

a. shift the production possibilities curve inward.
b. cause an economy to operate inside its production possibilities curve.
c. shift the production possibilities curve outward.
d. eliminate the basic economic problem of scarcity.

ANSWER: c
DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

139. The ability of an economy to produce greater levels of output in the same period of time is called:
   a. positive economics.
   b. negative economics.
   c. economic growth.
   d. marginal productivity.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

140. Which of the following would *not* lead to a shift in an economy's production possibilities curve?
   a. Change in technology.
   b. Change in the number of resources.
   c. An earthquake.
   d. Improvement in the education level.
   e. Change in the composition of current output.

ANSWER: e
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

141. Adding more resources causes:
   a. downward movement along a production possibilities curve.
   b. the production possibilities curve to shift in.
   c. upward movement along a production possibilities curve.
   d. the production possibilities curve to shift out.
   e. the production possibilities curve to become positively sloped.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

142. If an economy keeps increasing its capital stock, then over time its production possibilities curve will:
   a. not move.
   b. shift to the left.
   c. shift to the right.
   d. disappear because scarcity ceases to exist.
   e. demonstrate massive job loss for workers.

ANSWER: c
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

143. Compare two economies A and B that start out with identical production possibilities curves. Economy A chooses an efficient point with 6 consumption goods and 3 capital goods, while economy B also chooses an efficient point, but with 4 consumption goods and 5 capital goods. In the future we can predict:

a. economy A will operate inefficiently.

b. economy B will operate inefficiently.

c. economy A and economy B will grow equally fast.

d. economy A will grow faster than economy B.

e. economy B will grow faster than economy A.

ANSWER:	e
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

144. An analysis of production possibilities curves indicates that the reason why underdeveloped nations have difficulties increasing their economic growth rates is because:

a. low population growth rates mean fewer workers to produce food and other necessities.

b. their production possibilities curves shift in when resources are increased.

c. their production possibilities curves are positively sloped, unlike those in more developed economies.

d. they must cut back their already meager consumption levels to increase capital production.

e. the opportunity cost of shifting resources from consumption goods to capital goods is relatively low.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

145. People in poor countries may have difficulties achieving economic growth because:

a. their production possibilities curves slope upward instead of downward.

b. they must cut back on current consumption to increase capital goods.

c. they have a solid consumption base already in place.

d. their resource bases are fully developed.

e. the law of increasing costs makes it hard to produce more goods.

ANSWER:	b
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

146. Technological innovations will cause:

a. the production possibilities curve to stay the same.

b. the production possibilities curve to shift to the left.

c. the production possibilities curve to shift to the right.

d. an economy to operate below its production possibilities curve.

e. the production possibilities curve to increase or decrease.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

147. Which of the following causes the production possibilities curve to shift to the right?

a. d and e.

b. c and e.

c. A war.

d. The development of a new technology that improves productivity.

e. The discovery of oil reserves.

ANSWER:	a
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

148. Robinson Crusoe's decision to produce more capital goods and fewer consumer goods in a given period causes:

a. a decrease in the resources available in its economy.

b. an increase in economic growth in future periods.

c. a decrease in economic growth in future periods.

d. no change in the availability of resources in its economy.

e. a decrease in the ability to produce goods in the next period.

ANSWER:	b
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and The Future Production Possibilities Curve

149. A major technological advance would be represented on a production possibilities curve by a(n):

a. movement off the production possibilities curve toward a point outside the curve.

b. movement toward the curve from a point inside the curve.

c. outward shift of the entire curve.

d. movement to the left along the curve to a higher point.

ANSWER:	c
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

150. Other things being equal, a decreased supply of natural resources would be represented on a production possibilities curve by a(n):

a. movement off the curve to a point inside the curve.

b. movement down along the curve.

c. movement up along the curve.

d. inward shift of the entire curve.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

151. Which would be *least likely* to cause the production possibilities curve to shift to the right?

a. An increase in the labor force.

b. Improved methods of production.

c. An increase in the education and training of the labor force.

d. A decrease in unemployment.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Sources of Economic Growth

152. Which of the following would *most* likely cause the production possibilities curve for DVDs and food to shift outward?

a. A choice of more food and more DVDs.

b. A choice of more food and less DVDs.

c. A choice of more DVDs and less food.

d. An increase in the quantity of natural resources.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Sources of Economic Growth

153. On a production possibilities curve diagram, greater entrepreneurship:

a. causes the curve to shift outward.

b. keeps the economy on the curve.

c. prevents movement along the curve.

d. keeps the economy at the corners of the curve.

ANSWER: a

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Sources of Economic Growth

154. In order for an economy to shift its production possibilities curve rightward, it must:

a. suffer resource unemployment.

b. experience an increase in its resources and/or an improvement in its technology.

c. use its resources more efficiently than at points along the curve.

d. all of these.

ANSWER: b

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Sources of Economic Growth

155. Reductions in available resources will cause the production possibilities curve to:

a. expand.

b. disappear.

c. become vertical.

d. shift inward.

ANSWER: d

DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Sources of Economic Growth

156. A rightward (an outward) shift of a nation's production possibilities curve could be caused by:
    a. a decrease in technology.
    b. an increase in resources.
    c. producing more consumer and fewer capital goods.
    d. a decline in the labor force's level of education and skills.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

157. An outward shift of an economy's production possibilities curve is caused by:
    a. an increase in capital.
    b. an increase in labor.
    c. an advance in technology.
    d. all of these.

ANSWER: d
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

158. The production possibilities curve for the nation of Economania shifts to the right. This could have been caused by:
    a. a decrease in Economania's capital stock.
    b. a decrease in the Economania's labor supply.
    c. high unemployment in Economania the previous time period.
    d. Economania producing all consumer goods in the previous period.
    e. technological innovation in the production of Economania goods.

ANSWER: e
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

159. The production possibilities curve for the nation of Economagic shifts to the left. This could have been caused by:
    a. an increase in Economagic's labor supply.
    b. innovation in the production of goods in Economagic.
    c. a war that destroyed some of Economagic's resource base.
    d. unemployment among Economagic's workers.
    e. Economagic's choice of more consumption and less capital last period.

ANSWER: c
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

160. Which of the following cause(s) economic growth?
    a. c and d.

b. d and e.
c. The production of more scarce goods
d. A technological improvement
e. The production of more capital goods

ANSWER:	b
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

161. Economic growth may be represented by a(n):
a. leftward shift of a production possibilities curve.
b. outward shift of a production possibilities curve.
c. movement along a production possibilities curve.
d. production possibilities curve that remains fixed.

ANSWER:	b
DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

162. A source of economic growth is:
a. unemployment.
b. inefficiency.
c. less resources.
d. greater entrepreneurship.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

163. One source of economic growth is:
a. producing inside the production possibilities curve.
b. producing outside the production possibilities curve.
c. increasing capital.
d. discouraging profit-seeking entrepreneurs.

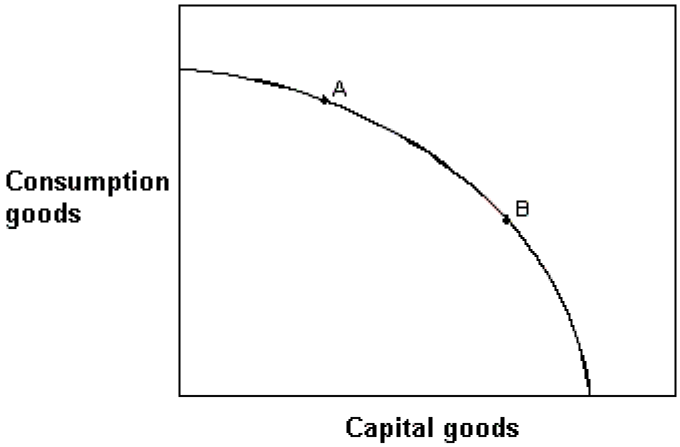
ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

164. Which of the following statements is *false*?
a. Marginal analysis is an examination of the effects of additions or subtractions from a current situation.
b. The production possibilities curve shows the maximum combination of two outputs that an economy can produce, given its available resources and technology.
c. Technology is the body of knowledge and skills applied to how goods are produced.
d. Economic growth is illustrated as an inward shift of the production possibilities curve.

ANSWER:	d

DIFFICULTY:	Easy
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

Exhibit 2-17 Production possibilities curve



165. In Exhibit 2-17, if countries A and B currently have the same production possibilities curve (PPC) as given in the figure, but this year country A locates at point A on its PPC and country B locates at point B on its PPC, then country A:

a. is better off than country B.

b. will grow at a faster rate than country B.

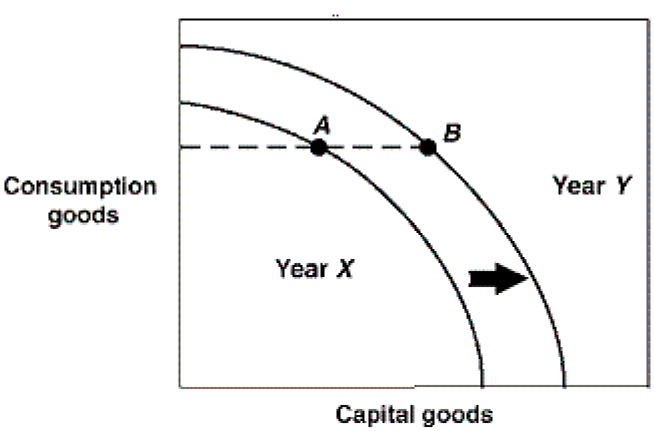
c. will grow at a slower rate than country B.

d. is producing more capital goods than country B.

e. is more efficient than country B.

ANSWER:	c
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and the Future Production

Exhibit 2-18 Production possibilities curves



166. In Exhibit 2-18, a country is located at point A on its Year X production possibilities curve. In Year Y this same country is located at point B on its Year Y production possibilities curve. Which of the following could have brought about this outward shift in production possibilities curves?

a. More efficient production in Year X.

b. A natural disaster in Year X which leads to a destruction of resources.
c. Higher unemployment in Year X.
d. An advance in technology occurred in Year X.

ANSWER: d
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

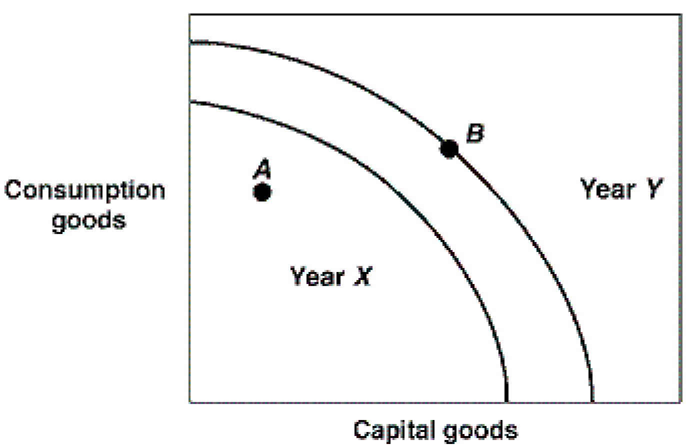
167. In Exhibit 2-18, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This country:
a. is producing the same number of capital goods in both years.
b. is producing the same number of consumption goods in both years.
c. has shown no growth between Year X and Year Y.
d. has higher unemployment in Year X than in Year Y.
e. has higher unemployment in Year Y than in Year X.

ANSWER: b
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

168. In Exhibit 2-18, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This economy:
a. is worse off in Year Y than in Year X.
b. has stagnated production in this two year period.
c. is more efficient in Year Y than in Year X.
d. has shown growth between these two years.
e. has higher unemployment in Year Y than in Year X.

ANSWER: d
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

Exhibit 2-19 Production possibilities curves



169. In Exhibit 2-19, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This economy:

a. has lower unemployment in Year Y than in Year X.

b. was more efficient in Year X than in Year Y.

c. achieved full employment in Year X and in Year Y.

d. showed no growth between Year X and Year Y.

e. is worse off in Year Y than in Year X.

ANSWER:	a
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and the Future Production

170. In Exhibit 2-19, the production possibilities curves for a country are shown for the years Year X and Year Y. Which of the following could have caused a shift for Year X to Year Y in production possibilities curves?

a. An increase in unemployment.

b. A decline in technology.

c. An increase in the stock of capital goods.

d. A natural disaster.

e. More efficient production.

ANSWER:	c
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and the Future Production

171. With time, which one of the following strategies would *most* likely result in an outward shift in the production possibilities curve of an economy?

a. passage of legislation reducing the workweek to 30 hours.

b. instituting a tax policy encouraging consumption at the expense of investment.

c. instituting a tax policy encouraging investment at the expense of consumption.

d. an increase in the marginal income tax rate, which would reduce the work effort of individuals.

ANSWER:	c
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and the Future Production

172. Which of the following is *true*?

a. The production possibilities curve indicates that it will be impossible to expand total output with the passage of time.

b. As long as resources are scarce, output cannot be increased.

c. The size of the economic pie is fixed, and therefore, if one individual has more income, others must have less.

d. Over time, the output of goods and services can be increased through human ingenuity and discovery of better ways of doing things.

ANSWER:	d
DIFFICULTY:	Moderate
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Present Investment and the Future Production

173. The process through which an economy's production possibilities curve shifts outward is:

a. full-employment management.

b. investment.

c. resource renewal.

d. out-resourcing.

ANSWER: b
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

174. The process of accumulating capital is called:

a. capitalization.

b. loanable funds.

c. investment.

d. debt management.

ANSWER: c
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

175. In economics, investment refers to the process of accumulating:

a. capital goods.

b. consumer goods.

c. money.

d. stocks and bonds.

ANSWER: a
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

176. A nation can accelerate its economic growth by:

a. reducing the number of immigrants allowed into the country.

b. adding to its stock of capital.

c. printing more money.

d. imposing tariffs and quotas on imported goods.

ANSWER: b
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

177. What to produce, how to produce, and for who to produce are the three fundamental economic questions.

a. True

b. False

ANSWER: True
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic

TOPICS: Three Fundamental Economic Questions

178. Only socialist economies need to answer the *What*, *How*, and *For Whom* questions.
   a. True
   b. False

ANSWER: False
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Three Fundamental Economic Questions

179. Opportunity cost is the *best* alternative sacrificed for a chosen alternative.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

180. When making a rational decision which requires the consideration of costs and benefits involved, the opportunity cost of a decision is often not taken into consideration when indeed it should be.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

181. An opportunity cost is the highest valued alternative foregone whenever one chooses an alternative.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

182. The opportunity cost of producing a good or service is the good or service that is foregone by choosing to produce another good with the same resources in a given period of time.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

183. The opportunity cost of attending a movie is the purchase price of a ticket.
   a. True
   b. False

ANSWER: False
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

184. Every economic choice has an opportunity cost.
    a. True
    b. False

ANSWER: True
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

185. The basic approach in marginal analysis is to compare a policy's total benefits with its total costs.
    a. True
    b. False

ANSWER: False
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Marginal Analysis

186. Marginal analysis examines the effects of additions to or subtractions from a current situation.
    a. True
    b. False

ANSWER: True
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Marginal Analysis

187. Unemployment or underemployment of labor might explain why an economy would be operating inside its production possibilities curve (PPC).
    a. True
    b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

188. If more of one good can be produced without producing less of another output, the economy must have been operating efficiently.
    a. True
    b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

189. If some resources went to waste rather to use in production, the economy would operate outside its production possibility curve.

a. True

b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

190. Each and every point along a production possibilities curve represents an efficient output option for an economy.

a. True

b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

191. If some resources were used inefficiently, the economy would operate outside its production possibilities curve.

a. True

b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

192. Of all the points on the production possibilities curve, only one point represents an efficient point.

a. True

b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

193. The most efficient point on the production possibilities curve is the midpoint on the curve.

a. True

b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

194. On the production possibilities curve, a movement between points that yields a loss of one good in order to raise the output of another good will maintain efficient production.

a. True

b. False

ANSWER: True
DIFFICULTY: Moderate

NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

195. All points on the production possibilities curve represent efficient levels of production.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

196. A nation's current location on its production possibilities curve can determine the future location of that nation's production possibilities curve.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

197. Assuming an economy is already experiencing full employment, then it must produce more consumer goods and fewer capital goods if it wishes to experience greater rates of economic growth over time.
   a. True
   b. False

ANSWER: False
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

198. A nation can accelerate economic growth by increasing its production of consumer goods.
   a. True
   b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Sources of Economic Growth

199. Investment in capital accumulation, as well as investment in education and other labor productivity enhancing programs, is necessary for economic growth.
   a. True
   b. False

ANSWER: True
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

200. In economics terminology, the process of accumulating money is investment.

a. True
b. False

ANSWER: False
DIFFICULTY: Easy
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

201. Investment is an economic term for the act of increasing the stock of money available for business loans.
a. True
b. False

ANSWER: False
DIFFICULTY: Moderate
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Present Investment and the Future Production

202. Discuss the three fundamental economic questions that all nations must address.

ANSWER: The three fundamental economic questions are the "What," "How," and "For Whom" questions which must be addressed by all societies. The "What" question pertains to what should the nation produce. What combination of goods would be best? How should that combination of goods be produced is the "How" question. We want to produce goods in the most efficient manner in order to maximize production. The "For Whom" question addresses for whom should these goods be produced. Who will get them?
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Three Fundamental Economic Questions

203. Why are all costs really "opportunity costs"?

ANSWER: An opportunity cost is what must be given up in order to get something else. Although it is convenient to measure many costs in monetary terms, ultimately all costs (some of which cannot be easily measured in monetary terms) are opportunity costs because there is always something that must be given up in order to get something else.
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: Opportunity Cost

204. Graphically express a production possibilities curve. What do points on, inside and outside the curve represent? What does a rightward shift of the curve represent? How is economic growth expressed in terms of the production possibilities model?

ANSWER: The production possibilities curve will bow out from the origin. A point on the curve represents efficiency. A point inside represents inefficiency. A point outside the curve is currently unattainable (it is a combination of production we cannot currently produce given our limited resources and technology; although that point may be attainable if we acquire more resources, technology, or generally increase our production possibilities). A rightward shift in the curve represents an increase in production possibilities. Because economic growth means an increase in a nation's production possibilities over time, then it is expressed as a rightward shift of the production possibilities curve.
DIFFICULTY: Challenging
NATIONAL STANDARDS: United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS: The Production Possibilities Curve

205. What can a nation do to increase its economic growth? Why is economic growth among the major national economic goals of all countries?

ANSWER:	A nation must increase its production possibilities in order to experience economic growth. Ingredients for economic growth include capital accumulation, investment in the labor force to increase productivity, investment in technology, and promoting the entrepreneurial spirit. Economic growth is a major national economic goal of all nations because it increases the average absolute standard of living for the nation.
DIFFICULTY:	Challenging
NATIONAL STANDARDS:	United States - BUSPROG:Analytic:Ref - BUSPROG: Analytic
TOPICS:	Sources of Economic Growth

1. Which of the following *best* describes the three fundamental economic questions?

a. hat to produce, when to produce, and where to produce.

b. What time to produce, what place to produce, and how to produce.

c. What to produce, when to produce, and for whom to produce.

d. What to produce, how to produce, and for whom to produce.

ANSWER: d

POINTS: 1

2. Which of the following is *not* one of the three fundamental economic questions?

a. What happens when you add to or subtract from a current situation?

b. For whom to produce?

c. How to produce?

d. What to produce?

ANSWER: a

POINTS: 1

3. Which of the following *correctly* lists the three fundamental economic questions?

a. If to produce? Why to produce? When to produce?

b. If to produce? What to produce? How to produce?

c. Why to produce? What to produce? How to produce?

d. What to produce? How to produce? For whom to produce?

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

TOPICS: Three Fundamental Economic Questions

KEYWORDS: Bloom's: Comprehension

4. Three basic decisions must be made by all economies. What are they?

a. How much will be produced, when it will be produced, and how much it will cost.

b. What the price of each good will be, who will produce each good, and who will consume each good.

c. What will be produced, how goods will be produced, and for whom goods will be produced.

d. How the opportunity cost principle will be applied, if and how the law of comparative advantage will be utilized, and whether the production possibilities constraint will apply.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

TOPICS: Three Fundamental Economic Questions

KEYWORDS: Bloom's: Comprehension

5. Because of the problem of scarcity, each economic system must make which of the following choices?

a. How to produce? b. What to produce?

c. For whom to produce? d. All of these.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

TOPICS: Three Fundamental Economic Questions

KEYWORDS: Bloom's: Comprehension

6. Which fundamental economic question is *most* closely related to the issues of income distribution and poverty?

a. The What to Produce question. b. The Why to Produce question.

c. The How to Produce question. d. The For Whom to Produce question.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Three Fundamental Economic Questions

KEYWORDS: Bloom's: Comprehension

7. Which fundamental economic question requires society to choose the technological and resource mix used to produce goods?

a. The What to Produce question. b. The Why to Produce question.

c. The How to Produce question. d. The For Whom to Produce question.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Three Fundamental Economic Questions

KEYWORDS: Bloom's: Comprehension

8. Opportunity cost:

a. represents the best alternative sacrificed for a chosen alternative.

b. has no relationship to the various alternatives that must be given up when a choice is made in the context of scarcity.

c. represents the worst alternative sacrificed for a chosen alternative.

d. Represents all possible alternatives sacrificed for a chosen alternative.

ANSWER: a

POINTS: 1

9. The opportunity cost of an action is:

a. the monetary payment the action required.

b. the total time spent by all parties in carrying out the action.

c. the value of the best opportunity that must be sacrificed in order to take the action.

d. the cost of all alternative actions that could have been taken, added together.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Opportunity Cost

KEYWORDS: Bloom's: Comprehension

10. The highest valued alternative that must be given up in order to choose an option is called the:

a. opportunity cost. b. utility cost.

c. scarcity expense. d. disutility option.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Knowledge

11. Which of the following sayings best reflects the concept of opportunity cost?
    a. "You can't teach an old dog new tricks."
    b. "There is no such thing as a free lunch."
    c. "I have a baker's dozen."
    d. "There's no business like show business."

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

12. The opportunity cost to a city for using local tax revenues to construct a new park is the:
    a. best alternative foregone by building the park.
    b. dollar cost of constructing the new park.
    c. dollar cost of the old park.
    d. increased taxes necessary to pay for maintenance of the new park.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

13. A good or service that is forgone by choosing one alternative over another is called a(n):
    a. explicit cost.
    b. opportunity cost.
    c. historical cost.
    d. accounting cost.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Knowledge

14. Suppose that the alternative uses of an hour of your time in the evening, ranked from best to worst, are (1) study economics, (2i) watch two half-hour TV sitcoms, (3) play pool, and (4) jog around town. You can only choose one activity. What is the opportunity cost of studying economics for one hour, given this information?
    a. Jogging around town.
    b. Watching two half-hour TV sitcoms.
    c. Playing pool.
    d. The sum of watching two half-hour TV sitcoms, playing pool, and doing your laundry.

ANSWER: b
POINTS: 1

15. Opportunity cost is the:
    a. cost incurred when one fails to take advantage of an opportunity.
    b. price paid for goods and services.
    c. cost of the best option forgone as a result of choosing an alternative option.
    d. undesirable aspects of an option.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

16. The opportunity cost of a purchase is:
    a. the selling price of the good or service.
    b. zero if the good or service satisfies a need.
    c. greater for persons who are rich.
    d. the good or service given up for the good or service purchased.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

17. The opportunity cost of watching television is:
    a. all of the alternative programs that appear on other stations.
    b. zero because there is no money expenditure involved.
    c. the alternative use of the time foregone by watching the program.
    d. zero if it benefits you.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

18. Which of the following does *not* illustrate opportunity cost?
    a. If I study, I must give up going to the football game.
    b. If I buy a computer, I must do without a 35" television.
    c. *More* consumer spending now means *more* spending in the future.
    d. If I spend more on clothes, I must spend less on food.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

19. Which of the following does *not* illustrate opportunity cost?
    a. If I study, I must give up going to the football game.
    b. If I buy a computer, I must do without a 35" television.
    c. If I spend more on clothes, I must spend less on food.
    d. All of these illustrate opportunity cost.

ANSWER: d
POINTS: 1

DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

20. The opportunity cost of an economic decision is:
    a. the best alternative that was sacrificed.
    b. the amount of money needed to implement the decision.
    c. any land, labor, and capital that are wasted.
    d. all options that were lost due to scarcity.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

21. Bill has $10 to spend on a Superman, Batman, or an X-Men T-shirt. Bill buys the Superman T-shirt and the Batman shirt was a close second choice. What is the opportunity cost?
    a. The amount he spent, $10.
    b. Nothing, since he got his preferred choice.
    c. The Batman T-shirt.
    d. The X-Men T-shirt.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

22. On a production possibilities curve, the opportunity cost of good X, in terms of good Y, is represented by the:
    a. distance to the curve from the vertical axis.
    b. distance to the curve from the horizontal axis.
    c. movement along the curve.
    d. all of these.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

23. Which of the following statements is *true*?
    a. An opportunity cost is what must be given up in order to get something else.
    b. The three fundamental economic questions refer to What to produce? How to produce? and When to produce?
    c. The term "investment" refers to the purchase of stocks and bonds and other financial securities.
    d. The law of increasing opportunity cost implies that as production of one type of good is expanded then fewer and fewer of other goods must be given up.

ANSWER: a
POINTS: 1

DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

24. The amount of a good that must be given up to produce another good is the concept of:
    a. scarcity.
    b. specialization.
    c. trade.
    d. efficiency.
    e. opportunity cost.

ANSWER: e
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Knowledge

25. The opportunity cost of an activity means the:
    a. amount of money the activity costs.
    b. number of hours that is required to engage in this activity.
    c. expected gains by engaging in the activity.
    d. amount of other things that must be sacrificed in order to engage in the activity.
    e. expected gains minus the expected costs of engaging in the activity.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

26. In the context of the production possibilities curve, opportunity cost is measured in:
    a. dollars paid for the goods.
    b. the quantity of other goods given up.
    c. the value of the resources used.
    d. changing technology.
    e. units of satisfaction.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

27. Mikki decides to work five hours the night before her economics exam. She earns an extra $75, but her exam score is 10 points lower than it would have been had she stayed home and studied. Her opportunity cost is the:
    a. five hours she worked.
    b. $75 she earned.
    c. 10 points she lost on her exam.
    d. time she could have spent watching television.

e. guilt she feels about neglecting her economics studies.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

28. When the opportunity cost of producing carrots increases as more carrots are produced, then:
    a. no more carrots will be produced.
    b. resources are equally suited to the production of carrots and to other goods.
    c. the production possibilities curve is a straight line.
    d. the production possibilities curve becomes positively sloped.
    e. the law of increasing costs is present.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Law of Increasing Opportunity Costs
KEYWORDS: Bloom's: Analysis

29. The opportunity cost of your college education is:
    a. c and d.
    b. d and e.
    c. the actual dollar cost of your college education.
    d. your best alternative use of the money you spend for a college education.
    e. money you could have earned working instead of going to college.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

30. The law of increasing costs indicates that the opportunity cost of producing a good:
    a. is proportional to the production of the good.
    b. is constant to the production of the good.
    c. increases as more of the good is produced.
    d. decreases as more of the good is produced.
    e. increases as less of the good is produced.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Law of Increasing Opportunity Costs
KEYWORDS: Bloom's: Comprehension

31. The amount of a good that is given up to produce another good is:
    a. its dollar cost.
    b. its opportunity cost.

c. its relative cost.

d. its absolute cost.

e. all of these.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

TOPICS: Opportunity Cost

KEYWORDS: Bloom's: Knowledge

Exhibit 2-1 Production possibilities curve data

Consumption Goods	Capital Goods
10	0
9	1
7	2
4	3
0	4

32. In Exhibit 2-1, according to the information, the opportunity cost of producing 3 units of capital is:

a. 3 units of consumption goods.
b. 4 units of consumption goods.
c. 6 units of consumption goods.
d. 7 units of consumption goods.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Opportunity Cost

KEYWORDS: Bloom's: Analysis

33. In Exhibit 2-1, the opportunity cost of producing the fourth unit of capital is:

a. 0.

b. 1 unit of consumption goods.

c. 2 units of consumption goods.

d. 4 units of consumption goods.

e. there is not enough information to estimate the opportunity cost.

ANSWER: d

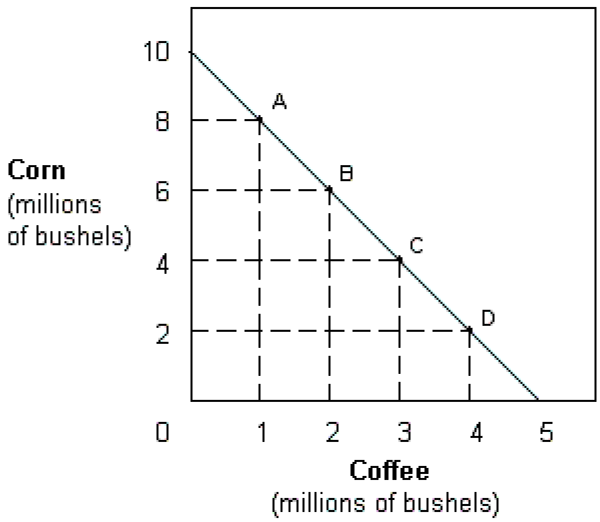
POINTS: 1

DIFFICULTY: Moderate

TOPICS: Opportunity Cost

KEYWORDS: Bloom's: Analysis

Exhibit 2-2 Production possibilities curve



34. The production possibilities in Exhibit 2-2 indicates that the opportunity cost of corn is:
    a. increasing.
    b. decreasing.
    c. zero.
    d. constant.
    e. indeterminate.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Analysis

35. In Exhibit 2-2, the slope of the production possibilities curve indicates that the opportunity cost of:
    a. coffee is constant.
    b. coffee is increasing.
    c. coffee is decreasing.
    d. corn is increasing.
    e. corn is decreasing,

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Analysis

36. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:
    a. 2 million bushels of corn.
    b. 6 million bushels of corn.
    c. 8 million bushels of corn.
    d. 14 million bushels of corn.
    e. it is not possible to determine.

ANSWER: a

POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Analysis

37. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:
   a. the same as moving from A to C.
   b. the same as moving from A to D.
   c. the same as moving from B to D.
   d. the same as moving from B to C.
   e. it is not possible to determine.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Analysis

38. A farmer is deciding whether or not to add fertilizer to his or her crops. If the farmer adds 1 pound of fertilizer per acre, the value of the resulting crops rises from $80 to $100 per acre. According to marginal analysis, the farmer should add fertilizer if it costs less than:
   a. $12.50 per pound. b. $20 per pound.
   c. $80 per pound. d. $100 per pound.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

39. Which word *best* completes the following sentence? A rational decision maker always chooses the option for which marginal benefit is __________ marginal cost.
   a. less than
   b. equal to
   c. unrelated to
   d. more than

ANSWER: d
POINTS: 1

40. In economics, the term marginal refers to:
   a. the change or difference from a current situation.
   b. man-made resources as opposed to natural resources.
   c. the satisfaction a consumer receives from a good.
   d. holding everything else constant in the analysis.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
TOPICS: Marginal Analysis

KEYWORDS: Bloom's: Knowledge

41. When deciding whether to buy a second car, marginal analysis indicates that the purchaser should compare the:
    a. benefits expected from two cars with the cost of both.
    b. additional benefits expected from a second car with the cost of the two cars.
    c. dollar cost of the two cars with the potential income that the cars will generate.
    d. additional benefits of the second car with the additional cost of the second car.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Analysis

42. While waiting in line to buy two tacos at 80 cents each and a medium drink for 90 cents, Jordan notices that the restaurant has a value meal containing three tacos and a medium drink all for $3. For Jordan, the marginal cost of the third taco would be:
    a. zero. b. 50 cents.
    c. 80 cents. d. $1.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

43. While waiting in line to buy a cheeseburger for $2 and a drink for 75 cents, Aaron notices that the restaurant has a value meal containing a cheeseburger, drink, and French fries for $3. For Aaron, the marginal cost of purchasing the French fries:
    a. would be zero.
    b. would be 25 cents.
    c. would be 50 cents.
    d. cannot be determined because the information about the price of the French fries is not provided.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

44. While waiting in line to buy one cheeseburger for $1.50 and a medium drink for $1.00, Sally notices that she could get a value meal that contains both the cheeseburger and medium drink and also a medium order of fries for $2.75. She thinks to herself, "Is it worth the extra 25 cents to get the medium fries?" To an economist, Sally's decision is an example of:
    a. marginal analysis.
    b. basing decisions on total, rather than marginal, value.
    c. an unintended consequence.
    d. the fallacy of composition.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate

TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

45. Just before class, Jim tells Stuart, "Stuart, you shouldn't skip class today because you have paid tuition to enroll in the class." Stuart ignores Jim's advice, and instead makes the decision of whether to attend based on the importance to his grade that he feels he'd be missing that day in class relative to his value of the extra time he could have to finish the video game he is playing. To an economist, Stuart is:

a. using marginal analysis.
b. ignoring the total value of attending class.
c. ignoring the concept of opportunity cost.
d. irresponsible.

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Analysis

46. Susan wishes to buy gasoline and have her car washed. She finds that if she buys 9 gallons of gasoline at $1.50 per gallon, the car wash costs $1, but if she buys 10 gallons of gasoline, the car wash is free. For Susan, the marginal cost of the tenth gallon of gasoline is:

a. zero.
b. 50 cents.
c. $1.
d. $1.50.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

47. Ralph wants to buy some milk and a box of cereal. If Ralph buys 2 quarts of milk at $1 per quart, the box of cereal costs 75 cents. If he buys 3 quarts of milk at $1 per quart, the box of cereal is free. For Ralph, the marginal cost of the third quart of milk is:

a. zero.
b. 25 cents.
c. 75 cents.
d. $1.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis
KEYWORDS: Bloom's: Application

48. A local restaurant offers an "all you can eat" Sunday brunch for $12. Susan eats four servings, but leaves half of a fifth helping uneaten. Why?

a. Her marginal value of a serving of brunch has fallen below $12.
b. Her marginal value of a serving has fallen below $2.36 ($12 divided by 5 servings).
c. Her marginal value of food has fallen to zero.
d. The total value she places on brunch today exactly equals $12.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Marginal Analysis

KEYWORDS: Bloom's: Application

49. According to marginal analysis, you should spend more time studying economics if the extra benefit from an additional hour of study:

a. is positive.

b. outweighs the extra cost.

c. exceeds the benefits of the previous hour of study.

d. will raise your exam score.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

TOPICS: Marginal Analysis

KEYWORDS: Bloom's: Comprehension

50. The principle that the opportunity cost increases as the production of one output expands along the production possibilities curve is the:

a. law of increasing opportunity costs.

b. law of supply.

c. law of demand.

d. law of diminishing returns.

ANSWER: a

POINTS: 1

51. Which word or phrase *best* completes the following sentence? Marginal analysis means evaluating _________ changes from a current situation.

a. positive or negative.

b. infinite.

c. alternating.

d. maximum.

ANSWER: a

POINTS: 1

52. Which of the following is an example of an organization using marginal analysis?

a. A hotel manager calculating the average cost per guest for the past year.

b. A farmer hoping for rain.

c. A government official considering what effect an increase in military goods production will have on the production of consumer goods.

d. A business calculating economic profits.

ANSWER: c

POINTS: 1

53. A production possibilities curve shows the various combinations of two outputs that:

a. consumers would like to consume.

b. producers would like to produce.

c. an economy can produce.

d. an economy should produce.

ANSWER: c

POINTS: 1

54. If an economy is operating at a point inside the production possibilities curve,
    a. its resources are not being used efficiently.
    b. the curve will begin to shift inward.
    c. the curve will begin to shift outward.
    d. This is a trick question because an economy cannot produce at a point inside the curve.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

55. Which of the following most accurately indicates the implications of an economy's production possibilities curve?
    a. If all the resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
    b. If all the resources of an economy are being used efficiently, it is generally possible to produce more of one good without having to sacrifice the production of other goods.
    c. Over time, it is generally impossible for a country to expand its production of goods.
    d. An economy will automatically move toward a point that lies outside of the production possibilities constraint unless proper government policy constrains production.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

56. Which of the following is true of the production possibilities curve?
    a. It assumes a fixed level of technology.
    b. It assumes resources are fixed.
    c. It assumes resources are fully employed.
    d. All of these are correct.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

57. After the terrorist attacks on September 11, 2001, the United States began devoting substantial resources toward the War on Terrorism, homeland security, and relief efforts. As long as our resources were being used efficiently, the production possibilities curve would suggest that:
    a. we will have to give up the production of other goods that could have been produced with these resources.
    b. we will be able to produce the same amount of other goods as before.
    c. the military spending will result in an outward shift in the production possibilities curve but that the relief effort will result in an offsetting inward shift.
    d. we will be unable to devote the resources necessary toward these efforts unless there is an improvement in technology.

ANSWER: a
POINTS: 1

DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

58. A point outside the production possibilities curve represents a combination of goods that is:
a. inefficient. b. efficient.
c. unattainable. d. attainable.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

59. Which of the following will be most likely to cause the production possibilities curve for a country to shift inward?
a. an increase in the labor force
b. an increase in unemployment
c. development of an improved technological method of production
d. a decrease in the stock of physical capital

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

60. In Europe during the 14th century, the Black Plague killed 24 million people or close to 37 percent of the population. How would this affect the production possibilities curves for the countries of Europe at that time?
a. The production possibilities curves for these countries would have shifted outward.
b. The production possibilities curves for these countries would have shifted inward.
c. The production possibilities curves for these countries would have been unaffected.
d. This would have been illustrated by a movement along the production possibilities curves for these countries, but it would not have shifted them.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

61. Which of the following would be *least* likely to cause the production possibilities curve to shift outward?
a. a decreased desire for leisure by workers in the economy.
b. an invention that requires fewer resources to produce a good.
c. a shift in consumer preferences that causes expansion in the output of one product and a decline in output of other products.
d. an expansion in the man-made productive resources available to the economy as the result of a high rate of investment.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

62. Using a production possibilities curve, a technological advance that increases the amount of output for the same amount of inputs would be illustrated as a(n):
    a. flattening of the curve.
    b. movement from one point to another point along the curve.
    c. outward shift of the curve.
    d. movement from a point on the curve to a point inside the curve.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

63. The production possibilities curve shows that:
    a. some of one good must be given up to get more of another good in an economy that is operating efficiently.
    b. no output combination is impossible.
    c. an economy that is operating efficiently can have more of one good without giving up some of another good.
    d. scarcity can be eliminated.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

64. Any point on the production possibilities curve illustrates:
    a. minimum production combinations.
    b. maximum production combinations.
    c. economic growth.
    d. a nonfeasible production combination.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

65. Production possibilities curve analysis includes the idea of:
    a. opportunity cost.
    b. scarcity.
    c. maximum production choices.
    d. all of these.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Knowledge

66. An efficient economy:
    a. uses available resources fully.

b. uses the best division of labor.
c. produces an output combination at some point along the production possibility curve.
d. all of these.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

67. A production possibility graph slopes down because of:
a. the law of increasing costs.
b. nonhomogeneous resources.
c. inefficiency.
d. improper output mix.
e. unemployment.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

68. The production possibility curve is bowed outward from the origin because of:
a. the law of increasing opportunity costs.
b. the finite nature of the resource base.
c. inefficiency.
d. improper output mix.
e. unemployment.

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

69. The production possibilities curve demonstrates the basic economic principle that:
a. market-based economies are more efficient.
b. supply will determine demand in the economy.
c. the production of more capital goods this year will cause the economy to produce less consumption goods next year.
d. to produce more of any one thing, assuming full employment, the economy must produce less of something else.
e. to produce more consumption goods this year requires the production of more capital goods this year.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

70. A production possibilities curve shows the various:

a. prices that can be charged for capital and consumption goods.

b. combinations of prices and outputs that can be produced.

c. combinations of goods the economy has the capacity to produce.

d. combinations of resources and prices that the economy can produce.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

71. A production possibilities curve has "good X" on the horizontal axis and "good Y" on the vertical axis. On this diagram, the opportunity cost of good X, in terms of good Y, is represented by the:

a. distance to the curve from the horizontal axis.

b. distance to the curve from the vertical axis.

c. distance from the origin to the curve.

d. change in Y for each change in X along the curve.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

72. Of factors which affect any economy's production potential, the *best* two listed below are:

a. resources and technology.

b. prices and outputs.

c. wages and prices.

d. taxes and prices.

e. resources and prices.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

73. The various combinations of goods and services that can be produced, when an economy uses its available resources and technology efficiently, is called:

a. scarcity.

b. opportunity cost.

c. unlimited production.

d. capital accumulation.

e. production possibilities.

ANSWER: e

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

74. A production possibilities curve shows the:
    a. dollar costs of producing two different goods.
    b. amounts of labor and capital needed to produce one good.
    c. various combinations of goods that can be produced.
    d. prices of different goods that are produced in an economy.
    e. inefficient use of available resources and technology.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

75. What shape is the production possibilities curve usually expected to exhibit?
    a. Upward-sloping.
    b. Bowed out.
    c. Bowed in.
    d. Straight line.
    e. U-shaped.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

76. When the production possibilities curve is bowed out, resources are:
    a. equally well-suited to production of both goods.
    b. not being used efficiently.
    c. not equally suited to the production of both types of goods.
    d. increasing as more of one good is produced.
    e. of an inferior quality.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

77. When an economy's resources are not fully employed, then it must be *true* that the:
    a. production point is located outside and to the right of the production possibilities curve.
    b. production point is located along the production possibilities curve.
    c. production point is located inside and to the left of the production possibilities curve.
    d. production possibilities curve shifts to the right.
    e. production possibilities curve shifts to the left.

ANSWER: c

POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

78. The production possibilities curve shows different combinations of goods that:
    a. can be consumed by households.
    b. can be consumed by firms.
    c. can be produced with the available technology.
    d. are produced and consumed by firms.
    e. are bought and sold in the market.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

79. The production possibilities curve illustrates all of the following concepts *except*:
    a. the law of increasing costs.
    b. unlimited wants.
    c. scarcity.
    d. opportunity cost.
    e. availability of resources.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

80. The production possibilities curve depicts the various combinations of two goods that can be:
    a. interchanged among two countries.
    b. produced with a given technology.
    c. consumed with a given quantity of resources.
    d. produced with increments in resources and changes in technology.
    e. consumed as the resources increase.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

81. Efficient production means producing:
    a. less than feasible output for a given amount of resources.
    b. more than feasible output for a given amount of resources.
    c. the maximum feasible output for a given amount of resources.
    d. no more than what is needed.

e. in excess of what is needed.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

82. The law of increasing costs holds that the opportunity cost:
a. of a good decreases as the quantity of the good produced increases.
b. of a good is proportional to the resources used in its production.
c. of a good increases as more of the good is produced.
d. of a good does not change with the resources used its production.
e. changes as more of the good is produced.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Law of Increasing Opportunity Costs
KEYWORDS: Bloom's: Comprehension

83. If an economy is producing at full employment, it means that:
a. there are idle resources in this economy.
b. the production is not efficient.
c. the economy is producing along its production possibilities curve.
d. the economy is producing at a point that is to the left of the production possibilities curve.
e. the economy is producing at a point that is to the right of the production possibilities curve.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

84. Which of the following is *not true* about a production possibilities curve? The curve:
a. indicates the combinations of goods and services that can be produced with given technology.
b. indicates the efficient production points.
c. indicates the non-efficient production points.
d. indicates the feasible (attainable) and non-feasible production points.
e. indicates which production point will be chosen.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

85. Which of the following is *true* about the production possibilities curve when a technological progress occurs? The curve:
a. shifts inwards to the left.

b. becomes flatter at one end and steeper at the other end.

c. becomes steeper.

d. shifts outward to the right.

e. does not change.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

86. A point inside a production possibilities curve reflects:

a. the law of increasing costs.

b. technological innovation.

c. less than full use of resources and technology.

d. economic efficiency.

e. a way to increase future economic growth.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

87. A point outside a production possibilities curve reflects:

a. efficiency.

b. specialization.

c. inefficiency.

d. unemployment.

e. an impossible choice.

ANSWER: e

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

88. Any point inside the production possibility curve is:

a. efficient. b. nonfeasible.

c. inefficient. d. optimal.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

89. Using a production possibilities curve, an economy that produces an output combination less than the maximum possible is depicted by a point located:

a. at the top corner of the curve.

b. near the middle of the curve.

c. at the bottom corner of the curve.

d. outside the curve.

e. inside the curve.

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

90. One of the assumptions underlying the production possibilities curve for any given economy is that:

a. the state of technology changes.

b. there is an unlimited supply of resources.

c. there is full employment of resources when the economy is on the curve.

d. goods can be produced outside the curve.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

91. Which of the following would be *most* likely to cause the production possibilities curve for computers and education to shift outward?

a. A choice of more computers and less education.

b. A choice of more education and less computers.

c. A reduction in the labor force.

d. An increase in the quantity of resources.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

92. Given a production possibilities curve, a point:

a. inside the curve represents unemployment.

b. on the curve represents full employment.

c. outside the curve is currently unattainable.

d. all of these.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

93. All points on the production possibilities curve are:

a. unattainable. b. fair.

c. efficient. d. optimal.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

94. As production of a good increases, opportunity costs rise because:

a. there will be more inefficiency. b. people always prefer having more goods.

c. of inflationary pressures. d. workers are not equally suited to all tasks.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

95. If society leaves some of its resources unemployed, then it will be operating at a point:

a. beneath its production possibilities curve.

b. at a corner of its production possibilities curve.

c. anywhere along its production possibilities curve.

d. outside of its production possibilities curve.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

96. The law of increasing opportunity costs causes the production possibilities curve to:

a. be a straight line. b. slope upwards.

c. have a bowed-out shape. d. shift inward.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

97. Along a production possibilities curve showing capital and consumption goods production, which of the following pairs are being held fixed?

a. Unemployment and capital goods production.

b. Number of resources and consumption goods production.

c. Composition of the economy's output and number of resources.

d. Capital and consumption goods production.

e. Technology and number of resources.

ANSWER: e

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-3 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	20	18	14	8	0

98. According to the data given in Exhibit 2-3, the production of 1 unit of capital goods and 14 units of consumer goods:
a. is possible but would be inefficient.
b. may be a result of unemployment.
c. may be a result of unused natural resources.
d. all of these.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-4 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	10	20	30	40
Consumer goods	200	180	140	80	0

99. According to the data given in Exhibit 2-4, the production of 140 units of consumer goods and 10 units of capital goods:
a. is possible but would be inefficient.
b. may be a result of unemployment.
c. may be a result of unused natural resources.
d. all of the above.
e. none of the above.

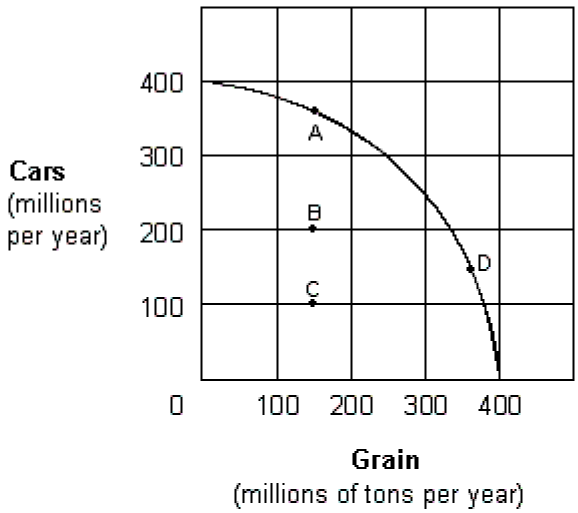
ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

100. According to the data in Exhibit 2-4, a total output of 140 units of consumer goods and 10 units of capital goods would:
a. be unobtainable in this economy.
b. be an efficient way of using the economy's scarce resources.
c. result in the maximum use of the economy's labor force.
d. result in a less than maximum rate of growth for this economy.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

Exhibit 2-5 Production possibilities curve



101. In Exhibit 2-5, movement between which of the following points represents an increase in economic efficiency?
   a. A to C.
   b. C to D.
   c. D to B.
   d. A to B.
   e. A to D.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

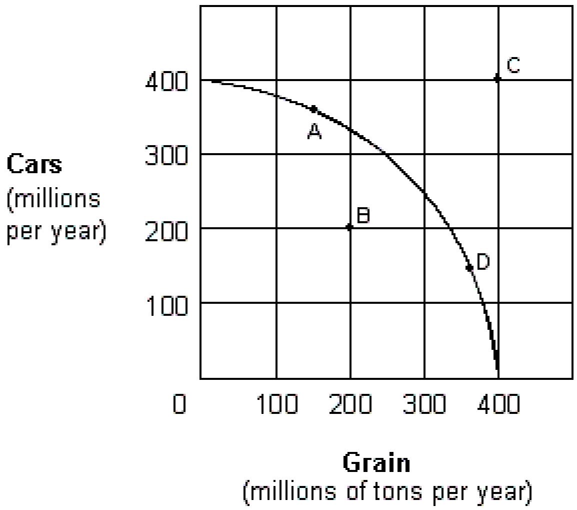
Exhibit 2-6 Production possibilities curve data

	A	B	C	D	E	F
Capital goods	150	140	120	90	50	0
Consumer goods	0	20	40	60	80	100

102. In Exhibit 2-6, the concept of increasing opportunity costs is represented by the fact that:
   a. the quantity of capital goods produced must be less than 150.
   b. the quantity of consumer goods is constant for each change in the quantity of capital goods produced.
   c. greater amounts of capital goods must be sacrificed to produce each additional unit of consumer goods.
   d. the amount of consumer goods produced must be greater than zero.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-7 Production possibilities curve



103. For the economy shown in Exhibit 2-7, which of the following is *true* when the economy is at point A?
   a. More cars are being produced than are needed.
   b. There must be resources that are not being used fully.
   c. Some car production must be forgone in order to produce more grain in the same period.
   d. Increased grain production would be impossible.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

104. For the economy shown in Exhibit 2-7 to operate at point C, it must:
   a. be willing to lower the price of grain.
   b. use its given resources more efficiently than it would at point A.
   c. experience resource unemployment.
   d. experience an increase in its resources and/or an improvement in its technology.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

Exhibit 2-8 Production possibilities curve data

	A	B	C	D	E	F
Capital goods	15	14	12	9	5	0
Consumer goods	0	2	4	6	8	10

105. As shown in Exhibit 2-8, the concept of increasing opportunity costs is reflected in the fact that:
   a. the quantity of consumer goods produced can never be zero.
   b. the labor force in the economy is homogeneous.
   c. greater amounts of capital goods must be sacrificed to produce an additional 2 units of consumer goods.

d. a graph of the production data is a downward-sloping straight line.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

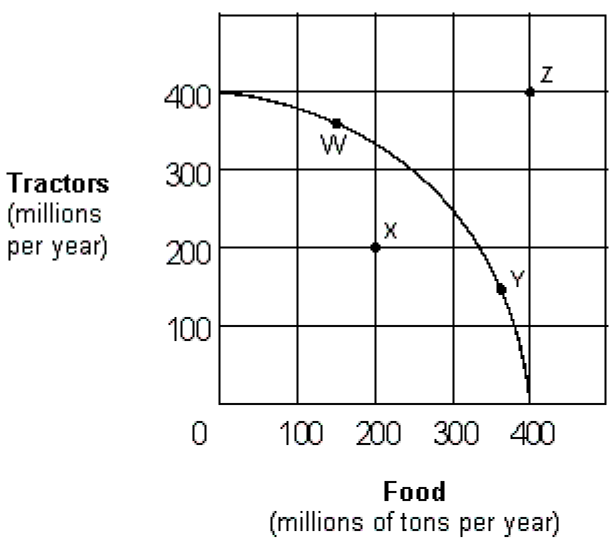
106. As shown in Exhibit 2-8, a total output of 0 units of capital goods and 10 units of consumer goods is:
   a. the maximum rate of output for this economy.
   b. an inefficient way of using the economy's scarce resources.
   c. the result of maximum use of the economy's labor force.
   d. unobtainable in this economy.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

107. As shown in Exhibit 2-8, a total output of 14 units of consumer goods and 1 unit of capital goods is:
   a. the result of maximum use of the economy's labor force.
   b. an efficient way of using the economy's scarce resources.
   c. unobtainable in this economy.
   d. less than the maximum rate of output for this economy.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-9 Production possibilities curve



108. If the economy represented in Exhibit 2-9 is operating at Point W:
   a. no tractor product must be forgone to produce more food in the current period.

b. resources are not fully used.

c. some tractor production must be forgone to produce more food in the current period.

d. increased food production would be impossible.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

109. Which of the following moves from one point to another in Exhibit 2-9 would represent an increase in economic efficiency?

a. Z to W. b. W to Y.

c. W to X. d. X to Y.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

110. Movement along this production possibilities curve shown in Exhibit 2-9 indicates:

a. that labor is not equally productive or homogeneous (nonhomogeneous).

b. decreasing opportunity costs.

c. all inputs are homogeneous.

d. all of these.

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

Exhibit 2-10 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumption goods	25	23	19	13	0

111. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. If this economy chooses the combination of goods at point A,

a. only capital goods are being produced.

b. every resource in the economy is utilized in the production of capital goods.

c. no capital goods are being used as factors of production.

d. every resource in the economy is being used in the production of consumption goods.

e. no consumption goods are being produced.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

112. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. The first unit of capital goods will cost the economy ____ units of consumption goods.

a. 25

b. 2

c. 1

d. 23

e. 11

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

113. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. As additional units of capital goods are being produced, the number of consumption goods produced must ____, because ____.

a. increase; the production possibility table shows only the maximum efficiency points

b. increase; of the law of increasing costs

c. decrease; of the law of increasing costs

d. decrease; of the finite nature of the resource base

e. increase; capital goods will assist in the production of consumer goods

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

114. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. The second unit of capital goods production will cost ____ units of consumption goods, and the third unit of capital goods production will cost ____ units of consumption goods.

a. 4; 6

b. 25; 23

c. 23; 19

d. 1; 23

e. 2; 19

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

115. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. As additional units of capital goods are produced, the opportunity cost in terms of sacrificed units of consumption goods ____ because of ____.

a. decreases; greater efficiency in production

b. increases; decreasing opportunity cost

c. increases; the law of increasing costs

d. increases; greater efficiency in production

e. decreases; the law of increasing costs

ANSWER: c

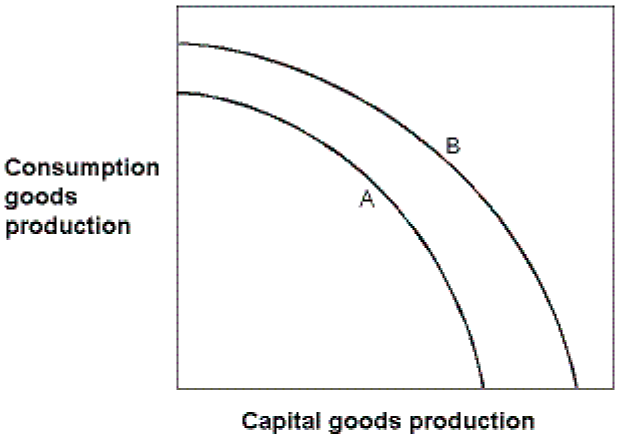
POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

Exhibit 2-11 Production possibilities curves



116. In Exhibit 2-11, which of the following could have caused the production possibilities curve of an economy to shift from the one labeled A to the one labeled B?

a. A major natural disaster

b. An increase in consumption goods production this year

c. An advance in technology

d. An increase in unemployment

e. A decrease in consumption goods production this year

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

117. In Exhibit 2-11, which of the following could have caused the production possibilities curve to shift from the one labeled B to the one labeled A?

a. A major natural disaster.

b. An increase in resources.

c. An advance in technology.

d. A decrease in unemployment.

e. An improvement in literacy.

ANSWER: a

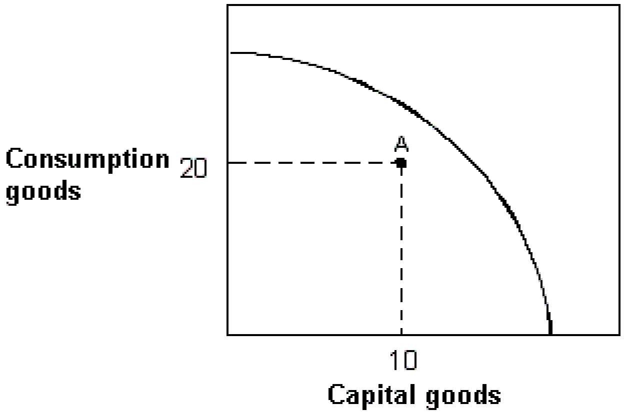
POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

Exhibit 2-12 Production possibilities curve



118. In Exhibit 2-12, suppose an economy with the given production possibilities curve is currently located at point A in the figure. Which of the following statements is *false*?

a. This economy could produce more of both capital and consumption goods.

b. This economy is experiencing full employment.

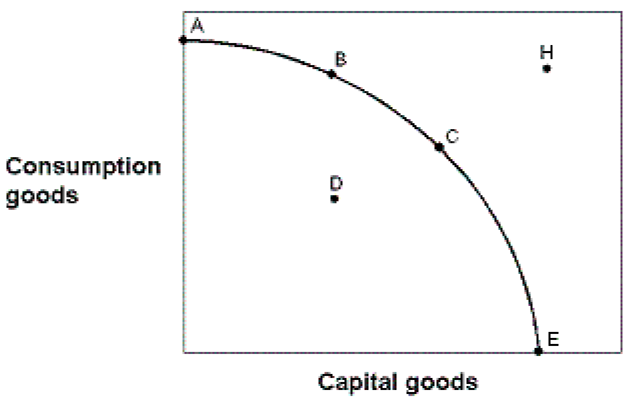
c. This economy could produce more capital goods while holding fixed the number of consumption goods produced.

d. This economy could produce more consumption goods while holding fixed the number of capital goods produced.

e. Not every resource in this economy is being utilized

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-13 Production possibilities curve



119. In Exhibit 2-13, in terms of efficiency:

a. point A is preferred to point B.

b. point A is preferred to point E.

c. point A is preferred to point D.

d. point B is preferred to point A.

e. point B is preferred to point C.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

120. In Exhibit 2-13, if the economy decides to locate at point E, then:
   a. this is the best choice for this economy.
   b. the maximum number of consumption goods is being produced.
   c. the economy has not achieved full employment.
   d. the economy could not survive because no food is being produced.
   e. the economy has not achieved maximum efficiency.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

121. In Exhibit 2-13, the combination of goods given by point H could:
   a. never be achieved by this economy.
   b. be achieved today if the economy achieved full employment.
   c. be achieved today if the economy achieved maximum efficiency.
   d. not be achieved today.
   e. be achieved today with the proper allocation of resources.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

122. In Exhibit 2-13, which of the following is *not true* regarding point H? Point H:
   a. cannot be achieved by this economy today.
   b. could be achieved today if the economy only achieved full employment.
   c. could be achieved in the future by an enlargement of the economy's resource base.
   d. could be achieved in the future by an advancement in technology.
   e. could be achieved in the future by growth in the economy.

ANSWER: b

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

123. In Exhibit 2-13, point H is:
   a. achievable with today's resource base.
   b. not achievable today because the economy has not achieved full employment.
   c. not achievable today because the economy is not at its maximum point of efficiency.

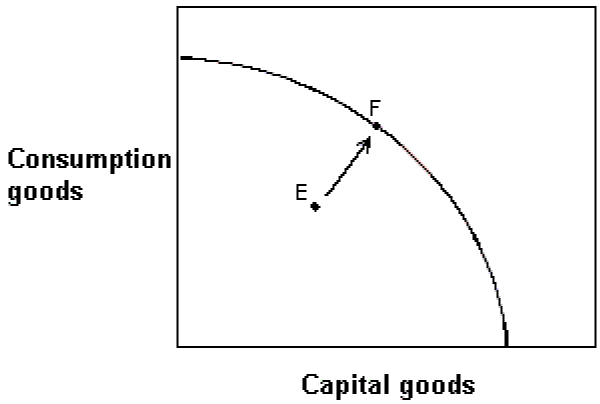
d. not achievable today because of waste.
e. not achievable today because of inadequate production capacity.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

124. In Exhibit 2-13, point D:
a. is preferred to point A.
b. is a point of maximum production for this economy this year.
c. is not achievable this year because of limited resources.
d. could result from some degree of unemployment of inefficiency.
e. is preferred to point H.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

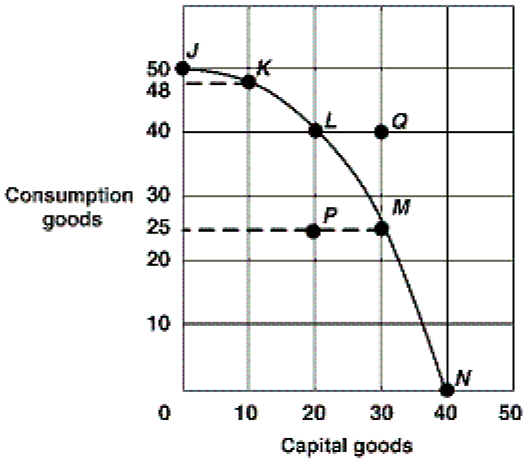
Exhibit 2-14 Production possibilities curve



125. In Exhibit 2-14, this economy was located at point E but has now moved to point F.
a. This would be an impossible move because the economy does not have sufficient resources.
b. The rate of unemployment in this economy would have increased.
c. Consumption goods production has increased, but capital goods production has decreased.
d. The economy has decreased unemployment, but some degree of unemployment still exists.
e. This economy has achieved full employment.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

Exhibit 2-15 Production possibilities curve



126. In Exhibit 2-15, if the economy moves from point L to point M, the opportunity cost of producing 10 more capital goods is:

a. 40 less consumer goods.

b. 25 less consumer goods.

c. 15 less consumer goods.

d. 15 more consumer goods.

e. 25 more consumer goods.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Opportunity Cost

KEYWORDS: Bloom's: Analysis

127. In Exhibit 2-15, if the economy produces no capital goods, what is the maximum number of consumer goods that can be produced?

a. 50.

b. 48.

c. 40.

d. 25.

e. 0.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

128. In Exhibit 2-15, the production possibilities curve demonstrates:

a. changing prices.

b. economic growth.

c. decreases in resources.

d. the law of increasing opportunity costs.

e. changing technology.

ANSWER: d

POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

129. In Exhibit 2-15, the economy will experience the *most* future economic growth if it chooses what point now?
   a. J.
   b. K.
   c. M.
   d. N.
   e. P.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

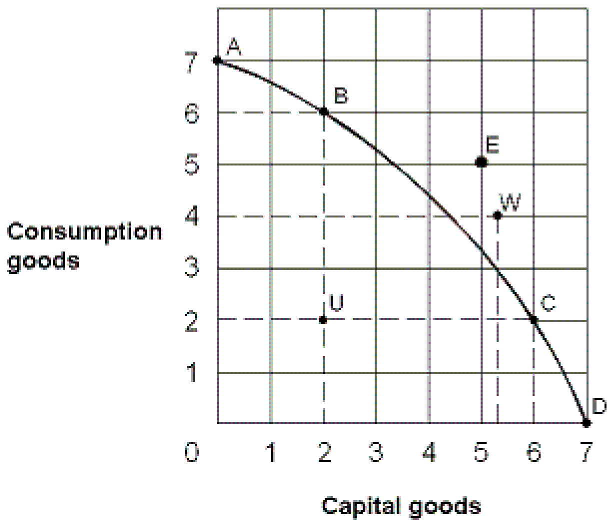
130. In Exhibit 2-15, inefficient resource use is shown by which of the following points?
   a. N.
   b. J.
   c. Q.
   d. L.
   e. P.

ANSWER: e
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

131. In Exhibit 2-15, what can we conclude about point Q?
   a. It is efficient.
   b. It is inefficient.
   c. It is unattainable.
   d. It gives maximum future growth.
   e. It shows underemployed resources.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

Exhibit 2-16 Production possibilities curve



132. From the information in Exhibit 2-16, which of the following points on the production possibilities curve are attainable with the resources and technology currently available?

a. A, B, C, E, U

b. A, B, C, D, W

c. E, U, W

d. B, C, D, U

e. A, B, C, E

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

133. In Exhibit 2-16, which of the following points on the production possibilities curve are unattainable with the resources and technology currently available?

a. A, B, C, U

b. A, B, C, D, U

c. E and W

d. B, C, D, U

e. A, B, C, D

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

134. In Exhibit 2-16, which of the following points on the production possibilities curve are efficient production points?

a. A, B, C, U

b. A, B, C, D, U

c. E, U, W

d. B, C, D, U

e. A, B, C, D

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

135. In Exhibit 2-16, to move from U to B, the opportunity cost:

a. would be 4 units of consumption goods.

b. would be 2 units of capital goods.

c. would be zero.

d. would be 5 units of capital goods.

e. cannot be estimated.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

136. In Exhibit 2-16, which of the following points on the production possibilities curve are full-employment production points?

a. A, B, C, D

b. A, B, C, D, U

c. E, U, W

d. B, C, D, U

e. A, B, C, U

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

137.
Suppose that an economy can produce various combinations of fish and bread. If more people with strong fishing skills
became employed in this economy, how would the production possibilities curve (PPC) change?

a. The PPC would shift outward on the fish axis, but would not change on the bread axis.

b. The PPC would shift outward equally along both the fish and the bread axes.

c. The PPC would shift inward on the bread axis, but would not change on the fish axis.

d. The PPC would shift inward equally along both the fish and the bread axes.

ANSWER: a

POINTS: 1

138. Over time, an increase in a nation's stock of physical capital will:

a. shift the production possibilities curve inward.

b. cause an economy to operate inside its production possibilities curve.

c. shift the production possibilities curve outward.

d. eliminate the basic economic problem of scarcity.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Comprehension

139. The ability of an economy to produce greater levels of output in the same period of time is called:

a. positive economics.

b. negative economics.

c. economic growth.

d. marginal productivity.

ANSWER: c

POINTS: 1

140. Which of the following would *not* lead to a shift in an economy's production possibilities curve?

a. Change in technology.

b. Change in the number of resources.

c. An earthquake.

d. Improvement in the education level.

e. Change in the composition of current output.

ANSWER: e

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Comprehension

141. Adding more resources causes:

a. downward movement along a production possibilities curve.

b. the production possibilities curve to shift in.

c. upward movement along a production possibilities curve.

d. the production possibilities curve to shift out.

e. the production possibilities curve to become positively sloped.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

142. If an economy keeps increasing its capital stock, then over time its production possibilities curve will:

a. not move.

b. shift to the left.

c. shift to the right.

d. disappear because scarcity ceases to exist.

e. demonstrate massive job loss for workers.

ANSWER: c

POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

143. Compare two economies A and B that start out with identical production possibilities curves. Economy A chooses an efficient point with 6 consumption goods and 3 capital goods, while economy B also chooses an efficient point, but with 4 consumption goods and 5 capital goods. In the future we can predict:

a. economy A will operate inefficiently.
b. economy B will operate inefficiently.
c. economy A and economy B will grow equally fast.
d. economy A will grow faster than economy B.
e. economy B will grow faster than economy A.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

144. An analysis of production possibilities curves indicates that the reason why underdeveloped nations have difficulties increasing their economic growth rates is because:

a. low population growth rates mean fewer workers to produce food and other necessities.
b. their production possibilities curves shift in when resources are increased.
c. their production possibilities curves are positively sloped, unlike those in more developed economies.
d. they must cut back their already meager consumption levels to increase capital production.
e. the opportunity cost of shifting resources from consumption goods to capital goods is relatively low.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

145. People in poor countries may have difficulties achieving economic growth because:

a. their production possibilities curves slope upward instead of downward.
b. they must cut back on current consumption to increase capital goods.
c. they have a solid consumption base already in place.
d. their resource bases are fully developed.
e. the law of increasing costs makes it hard to produce more goods.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

146. Technological innovations will cause:

a. the production possibilities curve to stay the same.

b. the production possibilities curve to shift to the left.
c. the production possibilities curve to shift to the right.
d. an economy to operate below its production possibilities curve.
e. the production possibilities curve to increase or decrease.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

147. Which of the following causes the production possibilities curve to shift to the right?
a. d and e.
b. c and e.
c. A war.
d. The development of a new technology that improves productivity.
e. The discovery of oil reserves.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

148. Robinson Crusoe's decision to produce more capital goods and fewer consumer goods in a given period causes:
a. a decrease in the resources available in its economy.
b. an increase in economic growth in future periods.
c. a decrease in economic growth in future periods.
d. no change in the availability of resources in its economy.
e. a decrease in the ability to produce goods in the next period.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

149. A major technological advance would be represented on a production possibilities curve by a(n):
a. movement off the production possibilities curve toward a point outside the curve.
b. movement toward the curve from a point inside the curve.
c. outward shift of the entire curve.
d. movement to the left along the curve to a higher point.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

150. Other things being equal, a decreased supply of natural resources would be represented on a production possibilities curve by a(n):

a. movement off the curve to a point inside the curve.

b. movement down along the curve.

c. movement up along the curve.

d. inward shift of the entire curve.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Comprehension

151. Which would be *least likely* to cause the production possibilities curve to shift to the right?

a. An increase in the labor force.

b. Improved methods of production.

c. An increase in the education and training of the labor force.

d. A decrease in unemployment.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

152. Which of the following would *most* likely cause the production possibilities curve for DVDs and food to shift outward?

a. A choice of more food and more DVDs.

b. A choice of more food and less DVDs.

c. A choice of more DVDs and less food.

d. An increase in the quantity of natural resources.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

153. On a production possibilities curve diagram, greater entrepreneurship:

a. causes the curve to shift outward.

b. keeps the economy on the curve.

c. prevents movement along the curve.

d. keeps the economy at the corners of the curve.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Comprehension

154. In order for an economy to shift its production possibilities curve rightward, it must:

a. suffer resource unemployment.

b. experience an increase in its resources and/or an improvement in its technology.

c. use its resources more efficiently than at points along the curve.

d. all of these.

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

155. Reductions in available resources will cause the production possibilities curve to:

a. expand. b. disappear.

c. become vertical. d. shift inward.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

156. A rightward (an outward) shift of a nation's production possibilities curve could be caused by:

a. a decrease in technology.

b. an increase in resources.

c. producing more consumer and fewer capital goods.

d. a decline in the labor force's level of education and skills.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

157. An outward shift of an economy's production possibilities curve is caused by:

a. an increase in capital. b. an increase in labor.

c. an advance in technology. d. all of these.

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

158. The production possibilities curve for the nation of Economania shifts to the right. This could have been caused by:

a. a decrease in Economania's capital stock.

b. a decrease in the Economania's labor supply.

c. high unemployment in Economania the previous time period.

d. Economania producing all consumer goods in the previous period.

e. technological innovation in the production of Economania goods.

ANSWER: e
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

159. The production possibilities curve for the nation of Economagic shifts to the left. This could have been caused by:
 a. an increase in Economagic's labor supply.
 b. innovation in the production of goods in Economagic.
 c. a war that destroyed some of Economagic's resource base.
 d. unemployment among Economagic's workers.
 e. Economagic's choice of more consumption and less capital last period.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

160. Which of the following cause(s) economic growth?
 a. c and d.
 b. d and e.
 c. The production of more scarce goods
 d. A technological improvement
 e. The production of more capital goods

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

161. Economic growth may be represented by a(n):
 a. leftward shift of a production possibilities curve.
 b. outward shift of a production possibilities curve.
 c. movement along a production possibilities curve.
 d. production possibilities curve that remains fixed.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

162. A source of economic growth is:
 a. unemployment. b. inefficiency.
 c. less resources. d. greater entrepreneurship.

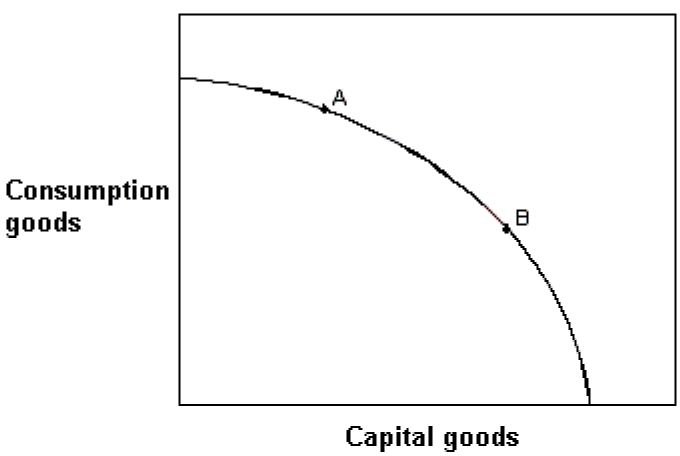
ANSWER: d
POINTS: 1

DIFFICULTY: Easy
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

163. One source of economic growth is:
a. producing inside the production possibilities curve.
b. producing outside the production possibilities curve.
c. increasing capital.
d. discouraging profit-seeking entrepreneurs.
ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

164. Which of the following statements is *false*?
a. Marginal analysis is an examination of the effects of additions or subtractions from a current situation.
b. The production possibilities curve shows the maximum combination of two outputs that an economy can produce, given its available resources and technology.
c. Technology is the body of knowledge and skills applied to how goods are produced.
d. Economic growth is illustrated as an inward shift of the production possibilities curve.
ANSWER: d
POINTS: 1
DIFFICULTY: Easy
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

Exhibit 2-17 Production possibilities curve



165. In Exhibit 2-17, if countries A and B currently have the same production possibilities curve (PPC) as given in the figure, but this year country A locates at point A on its PPC and country B locates at point B on its PPC, then country A:
a. is better off than country B.
b. will grow at a faster rate than country B.
c. will grow at a slower rate than country B.
d. is producing more capital goods than country B.

e. is more efficient than country B.

ANSWER: c

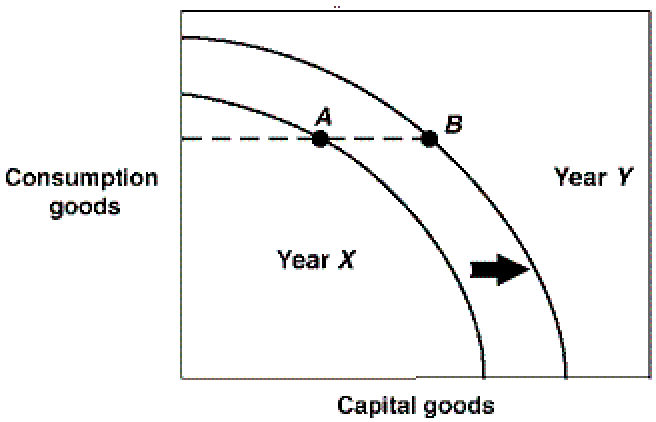
POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

Exhibit 2-18 Production possibilities curves



166. In Exhibit 2-18, a country is located at point A on its Year X production possibilities curve. In Year Y this same country is located at point B on its Year Y production possibilities curve. Which of the following could have brought about this outward shift in production possibilities curves?

a. More efficient production in Year X.

b. A natural disaster in Year X which leads to a destruction of resources.

c. Higher unemployment in Year X.

d. An advance in technology occurred in Year X.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

167. In Exhibit 2-18, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This country:

a. is producing the same number of capital goods in both years.

b. is producing the same number of consumption goods in both years.

c. has shown no growth between Year X and Year Y.

d. has higher unemployment in Year X than in Year Y.

e. has higher unemployment in Year Y than in Year X.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Analysis

168. In Exhibit 2-18, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This economy:

a. is worse off in Year Y than in Year X.

b. has stagnated production in this two year period.

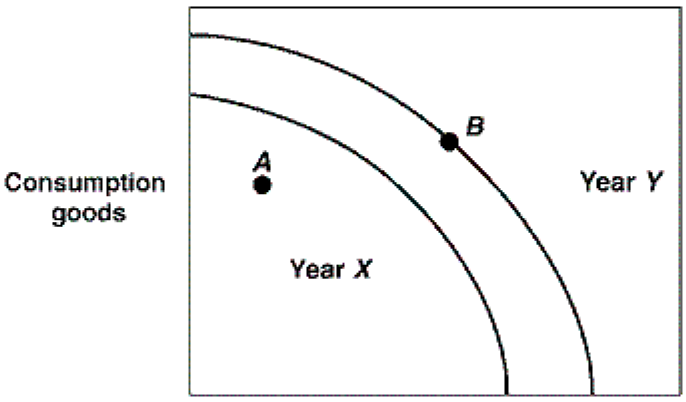
c. is more efficient in Year Y than in Year X.

d. has shown growth between these two years.

e. has higher unemployment in Year Y than in Year X.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

Exhibit 2-19 Production possibilities curves



169. In Exhibit 2-19, the production possibilities curves for a country are shown for the years Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This economy:

a. has lower unemployment in Year Y than in Year X.

b. was more efficient in Year X than in Year Y.

c. achieved full employment in Year X and in Year Y.

d. showed no growth between Year X and Year Y.

e. is worse off in Year Y than in Year X.

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

170. In Exhibit 2-19, the production possibilities curves for a country are shown for the years Year X and Year Y. Which of the following could have caused a shift for Year X to Year Y in production possibilities curves?

a. An increase in unemployment.

b. A decline in technology.

c. An increase in the stock of capital goods.

d. A natural disaster.

e. More efficient production.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

171. With time, which one of the following strategies would *most* likely result in an outward shift in the production possibilities curve of an economy?
   a. passage of legislation reducing the workweek to 30 hours.
   b. instituting a tax policy encouraging consumption at the expense of investment.
   c. instituting a tax policy encouraging investment at the expense of consumption.
   d. an increase in the marginal income tax rate, which would reduce the work effort of individuals.

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Analysis

172. Which of the following is *true*?
   a. The production possibilities curve indicates that it will be impossible to expand total output with the passage of time.
   b. As long as resources are scarce, output cannot be increased.
   c. The size of the economic pie is fixed, and therefore, if one individual has more income, others must have less.
   d. Over time, the output of goods and services can be increased through human ingenuity and discovery of better ways of doing things.

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Analysis

173. The process through which an economy's production possibilities curve shifts outward is:
   a. full-employment management.   b. investment.
   c. resource renewal.   d. out-resourcing.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Comprehension

174. The process of accumulating capital is called:
   a. capitalization.   b. loanable funds.
   c. investment.   d. debt management.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy

TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Knowledge

175. In economics, investment refers to the process of accumulating:
a. capital goods. b. consumer goods.
c. money. d. stocks and bonds.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Knowledge

176. A nation can accelerate its economic growth by:
a. reducing the number of immigrants allowed into the country.
b. adding to its stock of capital.
c. printing more money.
d. imposing tariffs and quotas on imported goods.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Comprehension

177. What to produce, how to produce, and for who to produce are the three fundamental economic questions.
a. True
b. False

ANSWER: True
POINTS: 1

178. Only socialist economies need to answer the *What*, *How*, and *For Whom* questions.
a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
TOPICS: Three Fundamental Economic Questions
KEYWORDS: Bloom's: Comprehension

179. Opportunity cost is the *best* alternative sacrificed for a chosen alternative.
a. True
b. False

ANSWER: True
POINTS: 1

180. When making a rational decision which requires the consideration of costs and benefits involved, the opportunity cost of a decision is often not taken into consideration when indeed it should be.
a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Analysis

181. An opportunity cost is the highest valued alternative foregone whenever one chooses an alternative.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Knowledge

182. The opportunity cost of producing a good or service is the good or service that is foregone by choosing to produce another good with the same resources in a given period of time.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Knowledge

183. The opportunity cost of attending a movie is the purchase price of a ticket.
a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

184. Every economic choice has an opportunity cost.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

185. The basic approach in marginal analysis is to compare a policy's total benefits with its total costs.
a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

TOPICS: Marginal Analysis

KEYWORDS: Bloom's: Comprehension

186. Marginal analysis examines the effects of additions to or subtractions from a current situation.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

TOPICS: Marginal Analysis

KEYWORDS: Bloom's: Comprehension

187. Unemployment or underemployment of labor might explain why an economy would be operating inside its production possibilities curve (PPC).

a. True

b. False

ANSWER: True

POINTS: 1

188. If more of one good can be produced without producing less of another output, the economy must have been operating efficiently.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Challenging

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Analysis

189. If some resources went to waste rather to use in production, the economy would operate outside its production possibility curve.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Comprehension

190. Each and every point along a production possibilities curve represents an efficient output option for an economy.

a. True

b. False

ANSWER: True

POINTS: 1
DIFFICULTY: Easy
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

191. If some resources were used inefficiently, the economy would operate outside its production possibilities curve.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

192. Of all the points on the production possibilities curve, only one point represents an efficient point.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

193. The most efficient point on the production possibilities curve is the midpoint on the curve.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

194. On the production possibilities curve, a movement between points that yields a loss of one good in order to raise the output of another good will maintain efficient production.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Analysis

195. All points on the production possibilities curve represent efficient levels of production.
   a. True
   b. False

ANSWER: True

POINTS: 1
DIFFICULTY: Moderate
TOPICS: The Production Possibilities Curve
KEYWORDS: Bloom's: Comprehension

196. A nation's current location on its production possibilities curve can determine the future location of that nation's production possibilities curve.
a. True
b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

197. Assuming an economy is already experiencing full employment, then it must produce more consumer goods and fewer capital goods if it wishes to experience greater rates of economic growth over time.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Analysis

198. A nation can accelerate economic growth by increasing its production of consumer goods.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Sources of Economic Growth
KEYWORDS: Bloom's: Comprehension

199. Investment in capital accumulation, as well as investment in education and other labor productivity enhancing programs, is necessary for economic growth.
a. True
b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Analysis

200. In economics terminology, the process of accumulating money is investment.
a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Moderate
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Knowledge

201. Investment is an economic term for the act of increasing the stock of money available for business loans.
    a. True
    b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
TOPICS: Present Investment and the Future Production
KEYWORDS: Bloom's: Knowledge

202. Discuss the three fundamental economic questions that all nations must address.

ANSWER: The three fundamental economic questions are the "What," "How," and "For Whom" questions which must be addressed by all societies. The "What" question pertains to what should the nation produce. What combination of goods would be best? How should that combination of goods be produced is the "How" question. We want to produce goods in the most efficient manner in order to maximize production. The "For Whom" question addresses for whom should these goods be produced. Who will get them?
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Three Fundamental Economic Questions
KEYWORDS: Bloom's: Comprehension

203. Why are all costs really "opportunity costs"?

ANSWER: An opportunity cost is what must be given up in order to get something else. Although it is convenient to measure many costs in monetary terms, ultimately all costs (some of which cannot be easily measured in monetary terms) are opportunity costs because there is always something that must be given up in order to get something else.
POINTS: 1
DIFFICULTY: Challenging
TOPICS: Opportunity Cost
KEYWORDS: Bloom's: Comprehension

204. Graphically express a production possibilities curve. What do points on, inside and outside the curve represent? What does a rightward shift of the curve represent? How is economic growth expressed in terms of the production possibilities model?

ANSWER: The production possibilities curve will bow out from the origin. A point on the curve represents efficiency. A point inside represents inefficiency. A point outside the curve is currently unattainable (it is a combination of production we cannot currently produce given our limited resources and technology; although that point may be attainable if we acquire more resources, technology, or generally increase our production possibilities). A rightward shift in the curve represents an increase in production possibilities. Because economic growth means an increase in a nation's production possibilities over time, then it is expressed as a rightward shift of the production possibilities curve.
POINTS: 1
DIFFICULTY: Challenging
TOPICS: The Production Possibilities Curve

KEYWORDS: Bloom's: Application

205. What can a nation do to increase its economic growth? Why is economic growth among the major national economic goals of all countries?

ANSWER: A nation must increase its production possibilities in order to experience economic growth. Ingredients for economic growth include capital accumulation, investment in the labor force to increase productivity, investment in technology, and promoting the entrepreneurial spirit. Economic growth is a major national economic goal of all nations because it increases the average absolute standard of living for the nation.

POINTS: 1

DIFFICULTY: Challenging

TOPICS: Sources of Economic Growth

KEYWORDS: Bloom's: Comprehension