

Economics Today: The Macro View, 5Ce (Miller)

Chapter 2 Production Possibilities and Economic Systems

1) A production possibilities curve represents

- A) combinations of goods and services among which consumers are indifferent.
- B) the maximum combination of goods and services that can be produced with fixed resources and technology, given efficient use of the resources.
- C) the maximum amount of labour and capital available to society.
- D) the maximum rate of growth of capital and labour in a country.

Answer: B

Diff: 1 Type: MC Page Ref: 30

Skill: Recall

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

2) One assumption underlying the production possibilities curve is that

- A) the quantity of the resources available for the production of economic goods is fixed over a given time period.
- B) some of the factors of production are not being used.
- C) at least one of the factors of production is a free good.
- D) there is at least one factor of production that is employed inefficiently.

Answer: A

Diff: 2 Type: MC Page Ref: 30

Skill: Recall

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

3) Which of the following is NOT an assumption used in deriving a production possibility curve?

- A) The labour force is growing.
- B) Resources are fully employed.
- C) Technology is constant.
- D) The quality of inputs is constant.

Answer: A

Diff: 3 Type: MC Page Ref: 30

Skill: Applied

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

4) A society currently operating on its production possibilities curve is

- A) technologically inefficient.
- B) consuming too much output.
- C) fully utilizing its productive resources.
- D) under-utilizing its resources.

Answer: C

Diff: 1 Type: MC Page Ref: 30

Skill: Recall

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

5) In the language of economics, "technology" is defined as _____.

Answer: society's pool of applied knowledge concerning the production of goods and services.

Diff: 3 Type: SA Page Ref: 30

Skill: Recall

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

6) Technology is defined in economics as

- A) output beyond the production possibilities boundary.
- B) the utilization of the most advanced machinery.
- C) society's pool of applied knowledge concerning how goods and services can be produced.
- D) the most advanced computer hardware and software.

Answer: C

Diff: 1 Type: MC Page Ref: 30

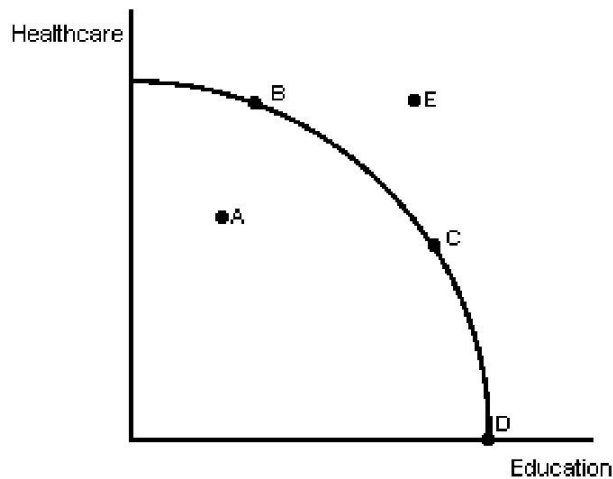
Skill: Recall

Objective: L.O. 2.1

Graph: No graph

Numerical: Non-numerical

Figure 2-1



- 7) In Figure 2-1, point D shows
- A) the use of all resources to produce Health Care.
 - B) using some resources to produce Education and some to produce Health Care.
 - C) the use of all resources to produce Education.
 - D) some unemployed resources.

Answer: C

Diff: 2 Type: MC Page Ref: 31

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 8) In Figure 2-1, the combination of outputs shown at point E could be obtained if
- A) resources were used more efficiently.
 - B) resources were shifted from education to health care.
 - C) resources were shifted from health care to education.
 - D) there was an increase in society's resources.

Answer: D

Diff: 2 Type: MC Page Ref: 31

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

9) In Figure 2-1, this society's best use of scarce resources

- A) occurs at point B.
- B) occurs at point A.
- C) occurs at point D.
- D) depends on people's wants.

Answer: D

Diff: 3 Type: MC Page Ref: 314

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

10) In Figure 2-1, point A is undesirable because

- A) it represents an inefficient use of resources.
- B) the opportunity costs of health care are too high.
- C) too much health care is being produced.
- D) point E is a more realistic option in this economy.

Answer: A

Diff: 2 Type: MC Page Ref: 31

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

11) In Figure 2-1, could point A ever be preferred to point C?

- A) No, because resource use at A is inefficient and at C it is efficient.
- B) Yes, because resource use at A is efficient.
- C) No, because any point like C that is on the PPC is always better than any point inside it.
- D) Yes, if people valued the additional health care at A more than the additional Education at C.

Answer: D

Diff: 3 Type: MC Page Ref: 32

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

12) In Figure 2-1, at point D, resource use is

- A) less efficient than at point C.
- B) more efficient than t point B.
- C) less efficient than at point B.
- D) more efficient than at point A.

Answer: D

Diff: 3 Type: MC Page Ref: 34

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 13) In Figure 2-1, the opportunity cost of moving from point B to point C
- A) is the increase in output in the education sector.
 - B) is the loss in production in the health care sector.
 - C) is zero.
 - D) is the loss in production in the education sector.

Answer: B

Diff: 2 Type: MC Page Ref: 35

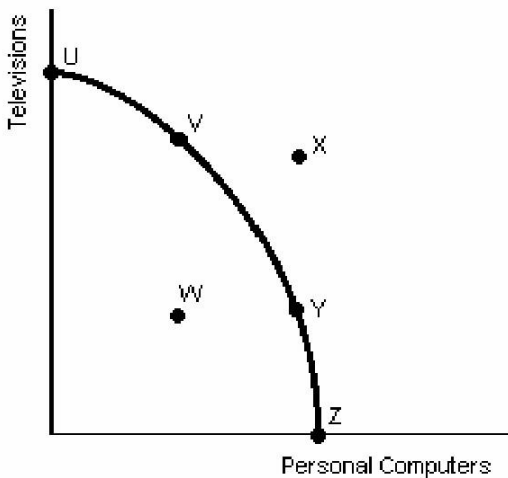
Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

Figure 2-2



- 14) In Figure 2-2, points U, V, Y, and Z show
- A) a constant trade-off between televisions and computers.
 - B) that society prefers more televisions than computers.
 - C) an inefficient allocation of society's scarce resources.
 - D) possible combinations of televisions and personal computers.

Answer: D

Diff: 2 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 15) In Figure 2-2, the combination of personal computers and televisions shown by point X
- A) suggests that the law of increasing relative costs does not hold.
 - B) can be attained only if some of society's resources are unemployed.
 - C) is not attainable at the point in the period for which the graph is drawn.
 - D) results only because society allocates its resources inefficiently.

Answer: C

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 16) The combination of personal computers and televisions shown in Figure 2-2 by point W
- A) is beyond the capacity of society to produce.
 - B) is attainable but involves the inefficient use of some of society's resources.
 - C) is more desirable than point X because producing at W does not put a strain on society's resources.
 - D) is an efficient use of society's resources because it is below the production possibilities curve.

Answer: B

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 17) Which of the following statements about movement along the PPC in Figure 2-2 is FALSE?
- A) Society cannot have more of both goods at the same time.
 - B) An additional computer can be produced only if fewer televisions are produced.
 - C) The trade-off between computers and televisions is not constant.
 - D) There are no opportunity costs involved in choosing one point on the curve over all other points.

Answer: D

Diff: 3 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 18) In Figure 2-2, the PPC has the bowed shape because
- A) some resources are better at producing one product than another.
 - B) all resources are equally good at producing both products.
 - C) all resources are perfectly adaptable.
 - D) some resources are equally good at producing both products.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 19) Given the production possibilities schedule in Table 2-1, a combination of 23 televisions and 6 computers

- A) is attainable but involves the unemployment of some of society's resources.
- B) cannot be produced by society given its current level of resources and production technology.
- C) clearly illustrates the trade-off between televisions and computers.
- D) can be produced only if society is willing to have some of its resources used inefficiently.

Answer: B

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

- 20) Given the production possibilities schedule in Table 2-1, a combination of nine televisions and four personal computers

- A) is attainable but involves an inefficient use of society's resources.
- B) is not attainable because society does not have enough resources to produce this combination.
- C) would be attainable only if a new production technology was introduced.
- D) is not attainable because it is not listed in the schedule.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

- 21) In Table 2-1, if the economy moves from point D to point E, the opportunity cost of the extra personal computer in terms of televisions given up is _____.

Answer: 4.

Diff: 3 Type: SA Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

22) In Table 2-1, if the economy moves from point F to point E, _____ televisions are gained at a cost of _____ given up.

Answer: 5, 1

Diff: 1 Type: SA Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

23) In Table 2-1, if the economy moves from point F to point D, _____ televisions are gained at a cost of _____ computers given up.

Answer: 9, 2

Diff: 3 Type: SA Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

24) In Table 2-1, the opportunity cost of each additional television in terms of computers given up

A) falls as more computers are produced.

B) increases as more computers are produced.

C) is meaningless because the cost of computers cannot be expressed in terms of televisions.

D) remains constant.

Answer: B

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

25) In Table 2-1, the opportunity cost of each additional computer in terms of televisions given up

A) falls as more computers are produced.

B) increases as more computers are produced.

C) is meaningless because the cost of computers cannot be expressed in terms of televisions.

D) remains constant.

Answer: B

Diff: 3 Type: MC Page Ref: 35

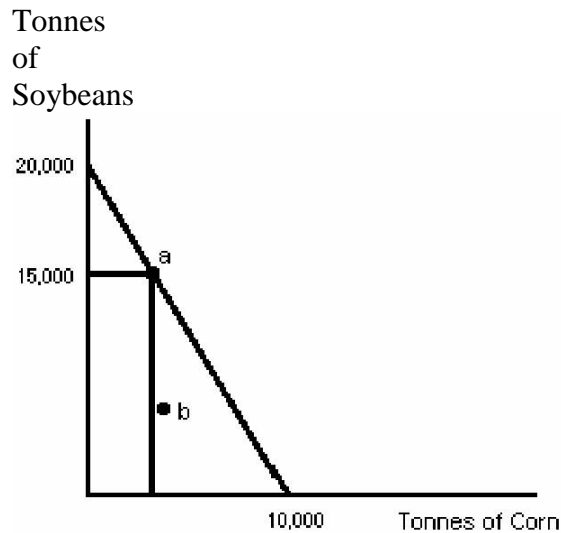
Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

Figure 2-3



26) A farmer has 100 hectares of land on which he can grow either soybeans or corn. A hectare of land yields 200 tonnes of soybeans or 100 tonnes of corn. Figure 2-3 shows the farmer's

- A) trade-off curve.
- B) opportunity cost curve.
- C) substitution options curve.
- D) production possibilities curve.

Answer: D

Diff: 1 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

27) In Figure 2-3, how many units of corn are produced at point "a"?

- A) 2,500
- B) 3,000
- C) 2,000
- D) Can't tell without more information.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

28) Given Figure 2-3 as the PPC for a particular farmer, if the farm is producing 7,000 tonnes of soybeans at point b, we know that

- A) the farmer must be using only 75 hectares of his land.
- B) the farmer must have leased an additional 25 hectares of land.
- C) the farmer must be producing 5000 tonnes of corn.
- D) if the farmer were using his resources efficiently, he could be producing 6500 tonnes of corn.

Answer: D

Diff: 3 Type: MC Page Ref: 33

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

29) Given the PPC in Figure 2-3, if farmers are producing 7,000 tonnes of soybeans at point b, they

- A) must be using more land than was used in constructing the production possibilities curve.
- B) are productively inefficient and resource use therefore is allocatively inefficient.
- C) are productively inefficient but overall resource use is allocatively efficient.
- D) are using land to produce a crop other than soybeans or corn.

Answer: B

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

30) The PPC shown in Figure 2-3 shows that the opportunity cost of a tonne of corn is

- A) 1/2 tonne of soybeans..
- B) 1 tonne of soybeans.
- C) 1 1/2 tonnes of soybeans.
- D) 2 tonnes of soybeans.

Answer: D

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

31) The production possibilities curve shown in Figure 2-3 shows that the opportunity cost of each tonne of soybeans is

- A) 1 tonne of corn.
- B) 1/2 tonne of corn.
- C) 2/3 tonnes of corn.
- D) 2 tonnes of corn.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

32) A movement along the production possibilities curve would suggest that

- A) society has chosen to produce a different set of outputs.
- B) productivity has declined because workers are demanding more leisure.
- C) the labour force has grown.
- D) productivity has increased.

Answer: A

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

33) A point outside a production possibilities curve shows

- A) that resources are not being used efficiently.
- B) that resources are being used very efficiently.
- C) that opportunity costs are constant.
- D) an output combination attainable only if society gets more resources or technological change occurs.

Answer: D

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

34) A point outside a society's PPC is

- A) technologically inefficient.
- B) unattainable given the resources of the society and current technology..
- C) undesirable given the implied underemployment of resources.
- D) desirable since it satisfies the desires of the population.

Answer: B

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

35) A point located inside a society's production possibilities curve represents

- A) an unattainable combination of outputs.
- B) an under-utilization of productive resources.
- C) a technically superior output combination.
- D) an output combination which satisfies the needs of the population.

Answer: B

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

36) If an economy is operating at a point located inside the production possibilities curve, then

- A) society's resources are being inefficiently utilized.
- B) the curve will move to the left.
- C) the curve will move to the right.
- D) society's resources are being used to produce too many consumer goods.

Answer: A

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

37) Which of the following would cause an economy to produce at a point inside its PPC?

- A) population growth
- B) the efficient allocation of all factors of production
- C) unemployment or inefficient use of available resources
- D) capital accumulation

Answer: C

Diff: 1 Type: MC Page Ref: 32

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

38) The prime minister of Canada promises to produce more defence goods without causing any decreases in the production of other goods. Such a promise could be valid

- A) if Canada is currently producing inside its production possibilities curve.
- B) if Canada is producing to the right of its production possibilities curve.
- C) if Canada is producing at a point on its production possibilities curve.
- D) under no possible circumstances; the production possibilities curve would have to shift to the right.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

39) A society on its production possibilities curve is

- A) technologically inefficient but allocatively efficient.
- B) consuming too much output.
- C) fully utilizing its productive resources but may or may not be allocatively inefficient.
- D) under-utilizing its resources.

Answer: C

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

40) Production is efficient if

- A) it generates a point beyond the production possibility curve.
- B) the maximum output possible given available resources and current technology.
- C) technological change occurs.
- D) the maximum amounts of the most important goods are produced.

Answer: B

Diff: 2 Type: MC Page Ref: 33

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

41) Allocative efficiency is achieved when

- A) a point beyond the production possibilities curve is reached.
- B) technological change occurs.
- C) the economy is producing on its production possibilities curve.
- D) the maximum amounts of the most desired goods and services are being produced.

Answer: D

Diff: 2 Type: MC Page Ref: 34

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

42) Productive efficiency is correctly defined as

- A) producing outside the production possibilities boundary.
- B) providing for the immediate needs of the greatest proportion of the population.
- C) minimizing opportunity cost.
- D) producing the maximum output possible with given technology and resources.

Answer: D

Diff: 1 Type: MC Page Ref: 33

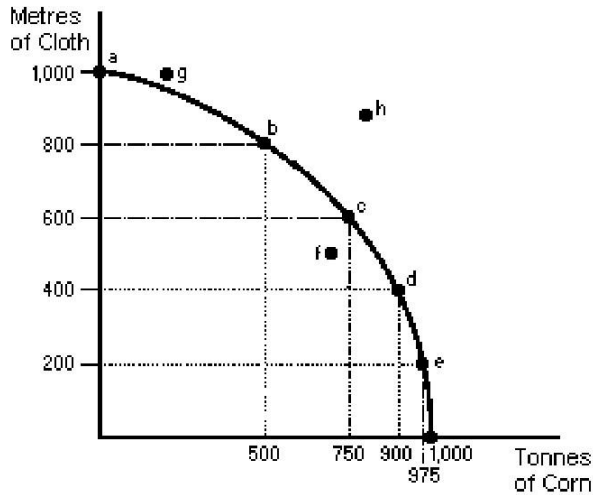
Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

Figure 2-4



43) In Figure 2-4, which of the following points indicates a productively inefficient use of resources?

- A) f
- B) g
- C) a
- D) h

Answer: A

Diff: 1 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

44) In Figure 2-4, between points b and c the opportunity cost of 250 tonnes of corn is

- A) 250 metres of cloth.
- B) 400 metres of cloth.
- C) 600 metres of cloth.
- D) 200 metres of cloth.

Answer: D

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

45) Between c and b in Figure 2-4, the opportunity cost of another tonne of corn is (on average)

- A) 1 metre of cloth.
- B) 100/125 metres of cloth.
- C) 100/250 metres of cloth.
- D) 1.25 metres of cloth.

Answer: B

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

46) Between points c and b in Figure 2-4, the opportunity cost of 200 metres of cloth is _____.

Answer: 250 tonnes of corn.

Diff: 3 Type: SA Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

47) Between points b and c in Figure 2-4, the (average) opportunity cost of another metre of cloth is _____.

Answer: 1.25 tonnes of corn.

Diff: 3 Type: SA Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Numerical

48) The shape of the production possibilities curve in Figure 2-4 indicates that

- A) production of both corn and cloth is characterized by constant costs.
- B) production of corn is characterized by constant costs and the production of cloth by increasing costs.
- C) production of both corn and cloth is characterized by increasing costs.
- D) production of corn is characterized by increasing costs while the production of cloth is characterized by decreasing costs.

Answer: C

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 49) In Figure 2-4, the bowed-out shape of the production possibilities curve indicates that
- A) resources are being used efficiently.
 - B) resources are being used inefficiently.
 - C) production is efficient but the economy is experiencing allocative inefficiency.
 - D) some resources are relatively better at producing corn and others are better at producing cloth.

Answer: D

Diff: 2 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 50) In Figure 2-4, which of the following would NOT be a means by which society might move to point h?

- A) an improvement in technology.
- B) an increase in quantity of capital.
- C) an increase in quantity of labour.
- D) more efficient use of current resources.

Answer: D

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: With graph

Numerical: Non-numerical

- 51) Consider the following production possibilities table for drill presses and corn. The table shows the maximum combination of drills and corn that can be produced when all resources are fully employed.

Drill Presses	10	20	30	40	50
Corn	150	140	120	90	50

Based on the information in the table,

- A) the opportunity cost of producing 40 drill presses instead of 30 drills is 30 corn.
- B) there is a constant trade-off between corn and drill presses.
- C) the production possibilities curve for drill presses and corn will be a straight line.
- D) the opportunity cost of producing 30 drill presses instead of 20 drills is 120 corn.

Answer: A

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Numerical

- 52) If a production possibilities curve for books and magazines is a straight line, then the
- A) opportunity cost of increasing book production stays constant regardless of the quantity produced.
 - B) opportunity cost of increasing book production continues to decline as total production increases.
 - C) opportunity cost of increasing book production is independent of the shape of the curve.
 - D) opportunity cost of increasing book production continues to increase as total production increases.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

- 53) A straight-line production possibilities curve would indicate that
- A) resources are better suited for producing one output than another.
 - B) the opportunity cost of producing more of a good is decreasing.
 - C) the opportunity cost of producing a good is constant.
 - D) resources are fixed.

Answer: C

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

- 54) If opportunity costs remained constant, then
- A) the production possibilities curve would bow outward.
 - B) the production possibilities curve would be a straight line.
 - C) the production possibilities curve would not exist.
 - D) factors of production must not be fully employed.

Answer: B

Diff: 2 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

55) The fact that a country's production possibilities curve bows outward tells us that

- A) opportunity costs are fixed as the production of a good increases.
- B) opportunity costs decrease as the production of a good increases.
- C) resources are of uniform quality.
- D) opportunity costs increase as the production of a good increases.

Answer: D

Diff: 3 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

56) A straight-line PPC would indicate that there is

- A) no opportunity cost between the two goods.
- B) an increasing opportunity cost between the two goods.
- C) a constant opportunity cost between the two goods.
- D) a decreasing opportunity cost between the two goods.

Answer: C

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

57) Increasing opportunity cost implies that

- A) producing additional units of one good results in increasing amounts of lost output of the other.
- B) producing additional units of one good results in proportionately smaller reductions in the other.
- C) the society will be producing on its production possibilities curve.
- D) the production possibilities curve will be a straight line.

Answer: A

Diff: 3 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

58) A production possibilities curve bowed outward is consistent with

- A) highly specialized resources.
- B) a technologically inefficient society.
- C) constant opportunity cost.
- D) the under-utilization of productive resources.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

59) A production possibilities curve that is bowed outward occurs when

- A) successive additions of one good require greater and greater reductions in the other.
- B) resources are not scarce.
- C) opportunity costs are constant.
- D) the society is operating on the production possibilities curve.

Answer: A

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

60) The law of increasing relative cost states that

- A) producing additional units of one good results in increasing amounts of lost output of the other.
- B) producing additional units of one good results in proportionately smaller reductions in output of the other.
- C) the economy will be producing on its production possibilities curve.
- D) the production possibilities curve will be a straight line.

Answer: A

Diff: 3 Type: MC Page Ref: 34

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

- 61) A production possibilities curve that is bowed outward indicates that
- A) additional units of output of one good necessitate increased reductions in the other good as more and more of the first is produced.
 - B) resources are scarce.
 - C) opportunity costs are constant.
 - D) the society is operating on the production possibilities curve.

Answer: A

Diff: 3 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

- 62) Increasing relative costs are the result of
- A) high taxes.
 - B) increasing scarcity.
 - C) the fact that resources are not perfectly adaptable for alternative uses.
 - D) the fact that the more society produces, the more difficult it is to use resources efficiently.

Answer: C

Diff: 1 Type: MC Page Ref: 35

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

- 63) If a country's production possibilities curve gets more bowed out over time, we know that
- A) resources have become more highly specialized.
 - B) society is learning to use its resources more efficiently.
 - C) the quantity of labour and capital have increased.
 - D) technological change has taken place.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

64) If all resources are perfectly adaptable for alternative uses, the production possibilities curve will

- A) be a straight line.
- B) be bowed in.
- C) be bowed out.
- D) not exist.

Answer: A

Diff: 3 Type: MC Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

65) Economic growth can be pictured in a production possibilities curve diagram by

- A) an inward shift of the production possibilities curve.
- B) an outward shift of the production possibilities curve.
- C) an increasingly bowed out production possibilities curve.
- D) a production possibilities curve that is less bowed out.

Answer: B

Diff: 1 Type: MC Page Ref: 32

Skill: Recall

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

66) Suppose a hectare of land yields 100 tonnes of corn and that one tonne of corn provides enough seed for one-quarter of a hectare of land. The opportunity cost of consuming another tonne of corn today is

- A) 25 tonnes of corn next year.
- B) 10 tonnes of corn next year.
- C) 100 tonnes of corn next year.
- D) 2.5 tonnes of corn next year.

Answer: A

Diff: 3 Type: MC Page Ref: 37

Skill: Applied

Objective: L.O. 2.3

Graph: No graph

Numerical: Numerical

67) Capital goods

- A) are a special type of consumption good.
- B) enhance the enjoyment consumers obtain from other goods and services.
- C) are goods used in the production of other goods including consumer goods and services.
- D) lead to inward shifts of a production possibilities curve.

Answer: C

Diff: 1 Type: MC Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

68) The opportunity cost of producing more capital goods today is

- A) fewer consumer goods today.
- B) fewer capital goods in the future.
- C) more unemployed resources in the future.
- D) fewer consumer goods in the future.

Answer: A

Diff: 3 Type: MC Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

69) A country that must reduce current consumption if it wished to increase future consumption possibilities

- A) must be producing along its production possibilities curve.
- B) must be producing outside the production possibilities curve.
- C) must be allocating resources inefficiently.
- D) must not have private ownership of property.

Answer: A

Diff: 2 Type: MC Page Ref: 37

Skill: Applied

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

- 70) If a country increases the production of its capital goods, then
- A) the more consumption of goods it can have today.
 - B) the less consumption it can have today, but the more it can have in future.
 - C) the more unemployed resources there will be in the future.
 - D) the more unemployed resources there are today.

Answer: B

Diff: 2 Type: MC Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

- 71) The more goods and services a society consumes today,
- A) the more it will be able to consume in the future.
 - B) the harder it will be to reduce consumption in the future because people will find it difficult to accept having less.
 - C) the less it can consume in the future.
 - D) the easier it will be to consume less in the future.

Answer: C

Diff: 2 Type: MC Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

- 72) When a society forgoes current consumption to invest in the production of capital goods,
- A) the less the society can consume in future.
 - B) the less capital the society can produce in the future.
 - C) the more the society can consume in the future.
 - D) the easier it will be for the society to consume less in the future because people will become accustomed to less.

Answer: C

Diff: 2 Type: MC Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

- 73) In general, specialization allows
- A) constant opportunity costs.
 - B) greater self-reliance.
 - C) the production of fewer capital goods.
 - D) greater productivity.

Answer: D

Diff: 2 Type: MC Page Ref: 39

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 74) The organization of productive activities among persons and regions so that no one individual or area is totally self-sufficient is known as

- A) comparative value.
- B) advantage-taking.
- C) specialization.
- D) out-sourcing.

Answer: C

Diff: 2 Type: MC Page Ref: 39

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 75) Economy A and Economy B have the same resources, but workers in Economy A have specialized whereas individuals in Economy B have not. Given this information, you can determine that

- A) Economy A will have a lower output than Economy B.
- B) Economy A will have a higher output than Economy B.
- C) Individuals in Economy A will have lower incomes than individuals in Economy B.
- D) Economy A and Economy B will have identical outputs.

Answer: B

Diff: 2 Type: MC Page Ref: 39

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 76) The principle of comparative advantage implies that it is desirable to choose the activity that
- A) is inside the production possibilities frontier.
 - B) does not demand any specialization.
 - C) has the lowest opportunity cost.
 - D) has a high opportunity cost.

Answer: C

Diff: 3 Type: MC Page Ref: 40

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 77) If individual X has a comparative advantage in painting fences and individual Y has a comparative advantage in carpentry, we know that
- A) individual X would use fewer hours to paint a fence than individual Y.
 - B) individual Y is a better carpenter than X.
 - C) we cannot tell whether specialization should occur without information on each person's absolute advantage.
 - D) there is a lower opportunity cost (expressed in units of carpentry) for individual X to paint than for individual Y to paint.

Answer: D

Diff: 3 Type: MC Page Ref: 40

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 78) A person has a comparative advantage in an activity whenever she
- A) can perform the activity at a lower opportunity cost than another person.
 - B) can do everything better than anyone else.
 - C) has an absolute advantage in that activity.
 - D) can do the activity in less time than anyone else.

Answer: A

Diff: 2 Type: MC Page Ref: 40

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

79) Comparative advantage is always a(n) _____ concept.

- A) relative
- B) engineering
- C) monetary
- D) absolute

Answer: A

Diff: 2 Type: MC Page Ref: 40

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

80) If you are able to earn \$20,000 a year teaching, \$25,000 a year typing, \$30,000 a year driving a cab, and \$40,000 a year as a chef, you have a comparative advantage in _____.

Answer: being a chef.

Diff: 1 Type: SA Page Ref: 40

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

81) The idea of comparative advantage is based directly on

- A) the concept of opportunity cost.
- B) the idea of absolute advantage.
- C) using workers with the most diverse sets of skills.
- D) the concept of technical progress.

Answer: A

Diff: 2 Type: MC Page Ref: 40

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

82) If a person can earn \$70,000 as an accountant, \$60,000 as a chef, \$20,000 as a mechanic, and nothing as an opera singer, he or she has a comparative advantage in

- A) accounting.
- B) being a chef.
- C) being a mechanic.
- D) opera singing.

Answer: A

Diff: 1 Type: MC Page Ref: 40

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Numerical

- 83) With resource specialization,
A) opportunity costs tend to be constant.
B) material well being will be greater.
C) there is more emphasis on self-reliance.
D) society is more productive although individuals are less productive.

Answer: B

Diff: 2 Type: MC Page Ref: 41

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 84) Division of labour raises the output of society by
A) reducing the choices people have to make to a more manageable number.
B) eliminating scarcity.
C) allowing resources to specialize in the tasks for which they have a comparative advantage.
D) ensuring that people are happier in performing their work.

Answer: C

Diff: 2 Type: MC Page Ref: 42

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 85) When nations begin to specialize in their areas of comparative advantage and then trade with the rest of the world, the result is that

- A) the average standard of living in the world will go up and everyone will be better off.
B) the world moves from a point on the global PPC to a point outside the curve.
C) the average standard of living in the world will go down but some producers will be better off.
D) the average standard of living in the world will go up but producers of some goods and services will be worse off.

Answer: D

Diff: 3 Type: MC Page Ref: 41

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 86) The division of labour refers to
- A) the separation of blue-collar workers and white-collar workers.
 - B) finding the best order of performing tasks.
 - C) the separation of workers into union workers and non-union workers.
 - D) the assignment of different workers to different tasks.

Answer: D

Diff: 1 Type: MC Page Ref: 42

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

- 87) International trade allows the world to
- A) move away from the global production possibilities curve.
 - B) move from inside the global production possibilities curve towards the curve.
 - C) move from outside the global production possibilities curve towards the curve.
 - D) make no move within the global production possibilities curve.

Answer: B

Diff: 3 Type: MC Page Ref: 41

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

88) "The institutional means by which scarce resources are used to satisfy human wants" is the definition of

- A) a system of property rights.
- B) an economic system.
- C) a social system.
- D) an educational system.

Answer: B

Diff: 1 Type: MC Page Ref: 42

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

89) What are the three basic economic questions in every country?

Answer:

1. What (and how much of it) will be produced.
2. How will it be produced.
3. For whom will it be produced.

Diff: 2 Type: SA Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

90) Which of the following is NOT one of the three basic economic questions?

- A) What amounts of which goods and services will be produced?
- B) How will goods and services be produced?
- C) What prices will be charged for the goods and services produced?
- D) For whom will goods and services be produced?

Answer: C

Diff: 3 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

91) One distinguishing feature between capitalist countries and non-capitalist countries is that

- A) capitalist countries have private property rights and non-capitalist countries do not.
- B) non-capitalist countries have private property rights and capitalist countries do not.
- C) capitalist countries do not provide profit incentives while non-capitalist countries do.
- D) capitalist countries do not allow prices to seek their own level, while non-capitalist countries do.

Answer: A

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

92) An economic system in which individuals own productive resources, and those individuals can use the resources in whatever manner they choose, subject to common protective legal rules, is known as _____.

Answer: capitalism.

Diff: 1 Type: SA Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

93) A pure capitalist economy would be

- A) a system characterized by private ownership of all resources.
- B) an economy in which decisions are made in a centralized manner.
- C) a system with extensive government ownership of resources.
- D) an economy in which firms control what is produced.

Answer: A

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

94) Another name for a capitalist economy is a

- A) socialist economy.
- B) market economy.
- C) communist economy.
- D) fascist economy.

Answer: B

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

95) A mixed system is an economic system in which

- A) scarcity is controlled by rationing.
- B) production is controlled by the government but consumers can buy whatever goods they wish.
- C) decisions about resource use are made partly by the private sector and partly by the public sector.
- D) the government owns all the capital but individuals own their own labour services.

Answer: C

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

96) A mixed economy is one in which decisions about how resources are used

- A) are made entirely by the private sector.
- B) are made entirely by the public sector.
- C) are made partly by the private sector and partly by the public sector.
- D) are made entirely by firms and consumers.

Answer: C

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

97) The Canadian economy is an example of

- A) a pure market capitalist system.
- B) command socialism.
- C) a mixed economy.
- D) market socialism.

Answer: C

Diff: 1 Type: MC Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

98) The circular flow diagram shows that

- A) firms are more important than consumers in determining what goods and services get produced.
- B) the interaction of consumers and producers determines what goods and services get produced.
- C) consumers are more important than firms in determining what goods and services get produced.
- D) the best form of economic organization is *laissez-faire*.

Answer: B

Diff: 1 Type: MC Page Ref: 44

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

99) In pure market capitalism, the movement of resources would

- A) be dictated by the government.
- B) follow the lure of profits.
- C) follows labour union directives.
- D) not apply.

Answer: B

Diff: 1 Type: MC Page Ref: 44

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

100) A price system is an economic system in which

- A) resource allocation is decided by bureaucrats.
- B) commands from government planners are used to answer the three basic economic questions.
- C) prices for all basic commodities are set by federal mandate.
- D) prices change to reflect changes in supply and demand for different commodities.

Answer: D

Diff: 2 Type: MC Page Ref: 44

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

101) If output of a good or service is zero in a market system, then we know that

- A) the market system has failed.
- B) the government must be preventing the production and sale of the good.
- C) the good is a demerit good.
- D) the lowest cost of producing the good is greater than the highest price consumers are willing and able to pay.

Answer: D

Diff: 2 Type: MC Page Ref: 46

Skill: Applied

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

102) In a pure capitalist economy the least-cost combination of inputs is used to produce a good because

- A) producers are less concerned with conserving natural resources in a market economy than in any other economic system.
- B) that combination minimizes profits.
- C) that combination maximizes profits.
- D) cheaply-made goods will wear out quickly, generating additional sales in the future.

Answer: C

Diff: 1 Type: MC Page Ref: 46

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

103) An inefficient factory is likely to close down under capitalism for which of the following reasons?

- A) government orders
- B) a central planner's decision
- C) adverse effects on income distribution
- D) low or negative profits

Answer: D

Diff: 1 Type: MC Page Ref: 46

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

104) When applied to an economic system, the term *laissez-faire* means that

- A) the government makes the majority of economic decisions.
- B) the government decides how resources should be allocated.
- C) the government minimizes its activity in the economy.
- D) the government maximizes its activity in the economy.

Answer: C

Diff: 1 Type: MC Page Ref: 45

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

105) Pure capitalism is sometimes referred to as

- A) a command system.
- B) a socialistic system.
- C) a *ceteris paribus* system.
- D) a *laissez-faire* system.

Answer: D

Diff: 1 Type: MC Page Ref: 45

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

- 106) People who favour *laissez-faire* believe that
- A) the government should play an active role in the economy.
 - B) firms should be prevented from charging unfairly high prices.
 - C) the public sector should be larger than it is.
 - D) the government should not interfere in the workings of the economy.

Answer: D

Diff: 1 Type: MC Page Ref: 45

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

- 107) People who argue in favour of *laissez-faire*
- A) believe the government should play an active role in the economy.
 - B) believe that income should be redistributed from the wealthy to the needy.
 - C) are making a positive judgement.
 - D) are making a normative judgement.

Answer: D

Diff: 3 Type: MC Page Ref: 45

Skill: Applied

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

- 108) People who argue against *laissez-faire*
- A) believe the government should play an active role in the economy.
 - B) believe that income should be redistributed from the wealthy to the needy.
 - C) are making a positive judgement.
 - D) are making a normative judgement.

Answer: D

Diff: 3 Type: MC Page Ref: 45

Skill: Applied

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

109) The "invisible hand" refers to

- A) the ways in which self-interested behaviour of buyers and sellers determines what is produced.
- B) the influence of government on market outcomes.
- C) the ways in which technology determines how goods and services are produced.
- D) money.

Answer: A

Diff: 2 Type: MC Page Ref: 44

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

110) Freely adjusting prices, profits, and private property are most closely associated with

- A) centralized planning.
- B) decentralized socialism.
- C) capitalism.
- D) a traditional economy.

Answer: C

Diff: 1 Type: MC Page Ref: 44

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

111) Three Ps of capitalism are

- A) prices, performance, and progress.
- B) prices, privilege, and profits.
- C) privilege, production, and profits.
- D) prices, profits, and private property.

Answer: D

Diff: 1 Type: MC Page Ref: 45

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

112) In both capitalist and mixed economies, the answer to "for whom" to produce goods and service

- A) involves only positive statements.
- B) does not depend on the ownership of resources.
- C) is made by government decision-makers.
- D) is based on the distribution of incomes and wealth among households.

Answer: D

Diff: 2 Type: MC Page Ref: 46

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

113) In both capitalist and mixed economies, the incomes and wealth levels of households

- A) always will be less fairly distributed than in command economies.
- B) are independent of the ownership of resources.
- C) are determined by government decision-makers.
- D) depend on the degree to which households own marketable resources and on the prices of those resources.

Answer: D

Diff: 2 Type: MC Page Ref: 46

Skill: Recall

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

114) The benefits from specialization and trade are the result of

- A) production of goods and services in locations which have absolute advantages.
- B) production of goods and services in locations where their opportunity costs are lowest.
- C) production of goods and services in the locations with the most productive workers.
- D) production of goods and services in locations with the lowest-paid workers.

Answer: B

Diff: 2 Type: MC Page Ref: 56

Skill: Applied

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

115) The concept "terms of trade" refers to

- A) the system of rules and regulations established to govern trade.
- B) the quantity of one good that must be traded in order to obtain a unit of another.
- C) the provisions of a contract between import-export firms in two countries.
- D) the time period during which trade is to take place.

Answer: B

Diff: 1 Type: MC Page Ref: 58

Skill: Recall

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

116) The "terms of trade" principle refers to the statement that

- A) the terms of trade must be clearly stated before any trade takes place.
- B) specialization and trade shifts out the world's PPC.
- C) specialization and trade move the world closer to its PPC.
- D) each producer will gain from specialization and trade as long as the terms of trade are between the producers' opportunity costs of production.

Answer: D

Diff: 3 Type: MC Page Ref: 58

Skill: Recall

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

117) The principle of comparative advantage states that

- A) countries with a comparative advantage in one good should specialize and trade but those with a comparative advantage in all goods should not.
- B) the combined output of two producers will be enhanced if each specializes in the product in which it has a comparative advantage.
- C) the combined output of two producers will be enhanced if each specializes in the product in which it has an absolute advantage.
- D) countries with an absolute advantage in one good should specialize in that good whether or not they have a comparative advantage in that good.

Answer: B

Diff: 3 Type: MC Page Ref: 58

Skill: Recall

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

118) Specialization and trade

- A) benefit rich countries and harm poor countries.
- B) benefit both rich countries and poor countries.
- C) benefit poor countries and harm rich countries.
- D) harm both rich countries and poor countries.

Answer: B

Diff: 3 Type: MC Page Ref: 59

Skill: Recall

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

119) Specialization according to the principle of comparative advantage

- A) shifts outward the world's PPC.
- B) benefits productive countries but harms less productive ones.
- C) benefits less productive countries and harms more productive ones.
- D) moves the world closer to its PPC.

Answer: D

Diff: 2 Type: MC Page Ref: 59

Skill: Applied

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

120) Specialization according to the comparative advantage principle within a country

- A) shifts outward the county's PPC.
- B) benefits productive regions but harms less productive ones.
- C) benefits less productive regions and harms more productive ones.
- D) moves the country closer to its PPC.

Answer: D

Diff: 2 Type: MC Page Ref: 59

Skill: Applied

Objective: Appendix B

Graph: No graph

Numerical: Non-numerical

121) Define productive efficiency. Explain why being productively efficient does not necessarily mean using the latest in high-tech production methods.

Answer: Productive efficiency is achieved when an economy or component part of an economy is producing the maximum output with given technology and resources. A production method is productively efficient if it is not possible to increase output using that technique with the resources available. That criterion applies to both high and low tech methods. The choice of which technique is best will depend upon how much each costs.

Diff: 2 Type: ES Page Ref: 33

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

122) Explain allocative efficiency. Does allocative efficiency imply that using the fastest production processes or most high-tech equipment is best? Explain.

Answer: Allocative efficiency means producing the goods and services that are most valuable for society. Society's wants cannot all be satisfied, so to be allocatively efficient we must be productively efficient, but production efficiency is not enough. The best way to produce the things we want most depends on the opportunity costs of using one input rather than another, and the most sophisticated equipment often will not mean producing at the lowest opportunity cost. It would be inefficient to use a supercomputer to add up the marks on your latest economics test not because it would do a bad job but because it could be put to more valuable use elsewhere.

Diff: 3 Type: ES Page Ref: 34

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

123) Explain the relationship between productive efficiency and allocative efficiency.

Answer: Productive efficiency means getting the greatest possible output of goods and services from the resources used. Allocative efficiency means doing the best possible job of meeting people's wants. Just being productively efficient does not guarantee that the most valuable outputs are being produced. However, unless production is efficient it would be possible to increase output from current resources and thus satisfy more wants. Thus, achieving allocative efficiency requires production efficiency.

Diff: 1 Type: ES Page Ref: 34

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

124) Does the production of capital goods imply less current consumption? If it does, when is the reduction in consumption worthwhile? Explain.

Answer: Capital goods are goods used to produce other goods or services, rather than for current consumption. The resources used to make capital goods must be diverted from the production of consumption goods, so there must be lower current consumption levels if capital goods are produced. The increase in capital goods will allow an increase in future output. So, if society judges the additional future output to be worth the sacrifice of consumption today, the capital goods will be worth producing.

Diff: 2 Type: ES Page Ref: 37

Skill: Applied

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

125) Discuss the problems of developing nations in terms of capital investment versus consumption goods. Specifically, what could be done for poorer nations to get out of poverty?

Answer: To raise future incomes, the decision must be made to forgo current consumption in order to create more capital goods, but that risks starving the current population. A dilemma regardless of the situation.

Diff: 3 Type: ES Page Ref: 37

Skill: Recall

Objective: L.O. 2.3

Graph: No graph

Numerical: Non-numerical

126) "The United States can't gain from trading with Canada, because their economy is so big that they can produce all goods more efficiently than Canada." Is this a valid claim? Explain.

Answer: It is not valid. It may be the case that the United States has an absolute advantage in many areas but even if it had an absolute advantage in every commodity, Canada would be relatively less inefficient in certain production areas. That would mean having a comparative advantage in those areas and there would still be gains to both countries from trade.

Diff: 3 Type: ES Page Ref: 41

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

127) Explain the difference between comparative advantage and absolute advantage.

Answer: Absolute advantage refers to the ability to produce a good with fewer total resources. Comparative advantage is the ability to produce with a lower opportunity cost. A comparative advantage exists when one has to give up fewer units of the other good than another person or country.

Diff: 3 Type: ES Page Ref: 40

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

128) What problems does Canada face because of international and inter-provincial trade?

Answer: Specialization and trade expand a country's ability to produce and consume goods and services, making it richer overall. However, that does not mean there are never any losers. If one region or country develops a lower-cost way of producing a product, it takes employment away from workers elsewhere. If Alaska crab fishers develop a cheaper method of harvesting crabs than fishers in British Columbia, BC fishers will lose out and perhaps try to raise trade barriers to protect their jobs. The same effects happen within Canada but firms and workers will more likely to call for subsidies than for barriers to trade.

Diff: 2 Type: ES Page Ref: 41

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

129) Use Adam Smith's pin factory example to explain how the division of labour within a firm can increase output from a given quantity of resources.

Answer: When workers specialized in performing separate tasks that were part of the pin-making operation they were able to make many more pins through cooperation than if each of them carried out all of the steps themselves. The reason was that the skills needed to perform each of the tasks were different. Using workers at tasks where they had comparative advantages (perhaps gained through practice) increased output.

Diff: 2 Type: ES Page Ref: 42

Skill: Recall

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

130) Explain the differences between a command economy, a pure capitalist economy and a mixed economy.

Answer: In a pure capitalist economy, answers to the basic economic questions of what, how, and for whom to produce, are provided by the outcomes of free markets based on private ownership of resources. In a command economy, those questions are decided by government. In a mixed economy, those decisions are made largely through market outcomes but with government intervention

Diff: 1 Type: ES Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical

131) Give examples of reasons why some people might prefer a pure capitalist economy and others a mixed economy.

Answer: One reason an person might prefer a mixed economy would be the value judgement that a pure market economy does not yield the best answer to the "for whom" question. A second reason is that in some cases, such as when there are monopolies, private markets can fail to generate allocatively efficient outcomes, meaning that they produce too much of some goods and too little of others given society's wants and the initial ownership of resources.

Diff: 2 Type: ES Page Ref: 44

Skill: Applied

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

132) Using a PPC graph, explain what we can tell about whether a particular point on the production possibilities curve is preferable to a specific point inside it.

Answer: For any point inside the production possibilities curve, there are always points on it that involve the greater production of all goods and services. With more of everything to share out, it would be possible for every person in the economy to be made better off. However, a move from inside the PPC to a point on it involving more of one good but less of the other might or might not better satisfy society's wants because some people would necessarily have less of some goods than before. [Graph with point inside PPC with vertical and horizontal lines to the PPC showing arc with more of both goods. Show also a point on the PPC that falls outside the arc of the curve defined by these lines.]

Diff: 3 Type: ES Page Ref: 31

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

133) Explain the meaning and importance of the law of increasing relative cost for a country's choice of what goods to produce.

Answer: The law of increasing relative cost says that, because resources are not perfectly substitutable, as more and more resources are devoted to the production of any one good, the opportunity cost of additional units (the amount of other goods that must be sacrificed to produce them) becomes higher and higher. As a result, the PPC is bowed outward. That does not mean that the best result will be "in the middle" of the PPC but it does mean that the opportunity cost must be matched up with trade-offs people are willing to make in order to achieve the best use of scarce resources.

Diff: 3 Type: ES Page Ref: 35

Skill: Applied

Objective: L.O. 2.2

Graph: No graph

Numerical: Non-numerical

134) Explain why comparative advantage rather than absolute advantage lies behind the principles of specialization and trade.

Answer: A country (or a region, or a person) with an absolute advantage in the production of a good uses fewer resources to produce it than would be required elsewhere. However, if the country does not have a comparative advantage, it will actually be a higher-cost producer -- when cost is correctly expressed as opportunity cost, the output given up when resources are used to produce that good rather than another. Even a country with an absolute disadvantage in producing all goods can profit from trade by specializes in producing the good at which its disadvantage is least.

Diff: 3 Type: ES Page Ref: 40

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

135) Explain why, if specialization and trade always makes it possible to increase a country's consumption, in effect generating extra output from the existing stock of scarce resources, anyone would favour placing restrictions on trade through such means as tariffs or quotas.

Answer: Specializing in the production of a good or service in which a country has a comparative advantage increases the quantity of goods and services available. Average or per capita incomes therefore always will be increased. However, since increased trade (both internationally and within a country) means expanding the output of some industries and cutting the output of others, there will be winners and losers. Workers who cannot readily transfer from one type of employment and other owners of resources that cannot easily be moved to the expanding areas will be made worse off and have an incentive to demand protection from "unfair" foreign competition.

Diff: 3 Type: ES Page Ref: 41

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

136) Explain why trade between two countries can be profitable for both even if one is better than the other in producing all goods and services.

Answer: Comparative advantage, not absolute, makes specialization and trade worthwhile. The more productive a country (or region, or person) the richer its residents will be. However, trade is worthwhile for both rich and poor. Imagine that country A can produce four times as much steel per worker and twice as much wheat per worker as country B. If a worker is used to grow a tonne of wheat in A, twice as much steel will be sacrificed as if the same amount of wheat were grown in B. That means it "really" is more expensive -- looking at opportunity costs -- to produce wheat in A than in B. Similarly, when a worker produces steel in B, that country gives up twice as much wheat as if the steel were produced in A. Steel is "really" cheaper -- has a lower opportunity cost -- in A. Both countries can gain from having the products produced where the costs are lowest and then trading with one another.

Diff: 3 Type: ES Page Ref: 41

Skill: Applied

Objective: L.O. 2.4

Graph: No graph

Numerical: Non-numerical

137) Describe the three basic types of economic systems.

Answer: A pure command economy is an economic system characterized by public ownership of all property resources and centralized decision-making. A pure capitalist economy is characterized by private ownership of all resources and decisions made by the interaction of resource owners in markets. A mixed economy involves a mix of public and private ownership characteristics.

Diff: 2 Type: ES Page Ref: 43

Skill: Recall

Objective: L.O. 2.5

Graph: No graph

Numerical: Non-numerical