

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 1

True / False

1. Opportunity cost is the difference between the benefits and the costs of a choice.

- a. True
- b. False

ANSWER: False

2. Opportunity cost is always measured in dollar terms, rather than in terms of real goods and services.

- a. True
- b. False

ANSWER: False

3. The opportunity cost of going to college consists of more than just the tuition that will be paid.

- a. True
- b. False

ANSWER: False

4. A rational decision maker engages in an activity if that activity is more attractive than the best alternative.

- a. True
- b. False

ANSWER: True

5. The Sultan of Brunei, one of the world's richest people, does not face the problem of scarcity.

- a. True
- b. False

ANSWER: False

6. The opportunity cost of going to college is the same for all students who are receiving full-tuition scholarships.

- a. True
- b. False

ANSWER: False

7. Opportunity cost is objective; therefore, its value does not change as circumstances change.

- a. True
- b. False

ANSWER: False

8. A university should not disband its football team since it has already paid for the stadium.

- a. True

b. False

ANSWER: False

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 2

9. If people specialize in producing those goods for which they possess a comparative advantage, then an economy as a whole can produce a greater quantity of goods.

a. True

b. False

ANSWER: True

10. It is possible for one person to have a comparative advantage in the production of all products.

a. True

b. False

ANSWER: False

11. Comparative advantage is based on opportunity costs.

a. True

b. False

ANSWER: True

12. A person who can produce more of a good than another person is said to possess a comparative advantage.

a. True

b. False

ANSWER: False

13. It is possible for one person to have an absolute advantage in two tasks and a comparative advantage in only one.

a. True

b. False

ANSWER: True

14. It is possible for one person to have an absolute advantage in something even if she has no comparative advantage in anything.

a. True

b. False

ANSWER: False

15. Absolute advantage is based on opportunity cost.

a. True

b. False

ANSWER: False

16. Specialization often leads to gains in productivity for society as a whole.

a. True

b. False

ANSWER: True

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 3

17. Each point on a production possibilities frontier requires full employment of resources.

a. True

b. False

ANSWER: True

18. The production possibilities frontier represents all desirable combinations of outputs.

a. True

b. False

ANSWER: False

19. Each point along a nation's production possibilities frontier represents efficient use of all resources.

a. True

b. False

ANSWER: True

20. The production possibilities frontier represents the boundary between attainable and unattainable prices of commodities.

a. True

b. False

ANSWER: False

21. A point inside the production possibilities curve illustrates a situation in which resources are not fully employed.

a. True

b. False

ANSWER: True

22. The bowed-out shape of the production possibilities frontier indicates increasing opportunity costs.

a. True

b. False

ANSWER: True

23. The typical concave (i.e., bowed-out) shape of the production possibilities frontier reflects the law of increasing opportunity cost.

a. True

b. False

ANSWER: True

24. A production possibilities frontier will shift outward if there is an improvement in technology.

a. True

b. False

ANSWER: True

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 4

25. A production possibilities frontier will shift inward if there is an increase in the size of the labor force.

a. True

b. False

ANSWER: False

26. The economic question of “what to produce” is often referred to as the distribution question.

a. True

b. False

ANSWER: False

27. A command economic system does not need to be concerned with what to produce, how to produce things, or who will get the goods and services produced.

a. True

b. False

ANSWER: False

28. Of the various types of economic systems, pure market capitalism involves the greatest government interference and control over the economy.

a. True

b. False

ANSWER: False

29. One flaw of pure capitalism is that a person who owns no resources could starve.

a. True

b. False

ANSWER: True

30. Inefficiency is a flaw of a command economy because there is less incentive for resources to flow to their highest-valued uses.

- a. True
- b. False

ANSWER: True

31. The primary differences in economic structure among different countries relate to ownership of resources and the manner in which economic activities are coordinated.

- a. True
- b. False

ANSWER: True

Multiple Choice

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 5

32. Opportunity cost exists because:

- a. technology is fixed at any point in time.
- b. the law of comparative advantage is working.
- c. resources are scarce but wants are unlimited.
- d. the value of lost opportunities varies from person to person.
- e. efficiency is measured by the monetary cost of an activity.

ANSWER: c

33. Opportunity cost is defined as the:

- a. dollar cost of what is purchased.
- b. value of all alternatives not chosen.
- c. value of the best alternative not chosen.
- d. difference between the benefits from a choice and the benefits from the next best alternative.
- e. difference between the benefits from a choice and the costs of that choice.

ANSWER: c

34. Suppose you have an hour before your next class starts. You can either read a book, get something to eat, or take a nap. The opportunity cost of getting something to eat is:

- a. the cost of what you eat.
- b. the value of reading and sleeping.
- c. the loss of value from not reading or sleeping.
- d. the net benefit of sleeping for another hour.
- e. impossible to determine because the most preferred alternative is not known.

ANSWER: e

35. The opportunity cost of an activity:

- a. depends on an individual's subjective values and opinions.
- b. is the same for everyone.
- c. must be calculated and known before undertaking that activity.

d. is irrelevant to decision making.

e. is not related to time.

ANSWER: a

36. The opportunity cost of choosing a particular activity:

a. can be easily and accurately calculated.

b. cannot be estimated.

c. does not change over time.

d. varies depending on time and circumstances.

e. is measured by the money spent on the activity.

ANSWER: d

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 6

37. Suppose you have a choice of working full-time during the summer or going full-time to summer school. Summer tuition and books are \$2,200. If you worked, you could make \$7,000. Your rent is \$1,000 for the summer, regardless of your choice. If these are the only relevant costs to consider, the opportunity cost of going to summer school is:

a. \$2,200.

b. \$7,000.

c. \$8,000.

d. \$9,200.

e. \$10,200.

ANSWER: d

38. A test is scheduled for Monday morning, and you went to a party on Sunday night. If you hadn't attended the party, you could have studied for the test or gone to a movie. Which of the following is true regarding your opportunity cost?

a. The opportunity cost of going to the movie is studying for the test.

b. The opportunity cost of going to the party is watching the movie.

c. The opportunity cost of going to the party is both watching the movie and the study time.

d. Because you could go to the party only that night, but could go to a movie any time, the opportunity cost of the party is the study time.

e. From the above information, it's not possible to determine the opportunity cost of attending the party.

ANSWER: e

39. The term opportunity cost suggests that:

a. in any exchange situation where one person gains, someone else must lose.

- b. not all individuals make the most of life's opportunities.
- c. executives do not always recognize opportunities for profit as quickly as they should.
- d. the only factor that is important in decision making is cost.
- e. because goods are scarce, in order to get some good you must give up some other good in return.

ANSWER: e

40. If you enjoy playing golf, the opportunity cost of cleaning your room:

- a. is greater on sunny days than it is on rainy days.
- b. is the same on sunny days as it is on rainy days.
- c. is smaller on sunny days than it is on rainy days.
- d. does not change with weather conditions.
- e. is equal to the opportunity cost of any other chore you have to do that day.

ANSWER: a

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 7

41. Melissa is a self-employed lawyer who chooses a higher-priced restaurant 2 miles from home over a cheaper restaurant 15 miles from home. Which of the following is the most likely explanation for her behavior?

- a. The opportunity cost of her time is very low.
- b. She doesn't take travel time into consideration.
- c. She doesn't like to cook or doesn't know how to cook.
- d. The prices at the more expensive restaurant understate the opportunity cost of eating there.
- e. The higher monetary cost of the more expensive restaurant is offset by the higher opportunity cost of the lower-priced restaurant.

ANSWER: e

42. The opportunity cost of an activity is best measured:

- a. only by the monetary costs.
- b. by the number of alternative activities that were forgone.
- c. by the cost difference between the chosen activity and the next best alternative.
- d. by the value expected from the best alternative that is forgone.
- e. as the time wasted choosing among various activities.

ANSWER: d

43. Suppose you have purchased a nonrefundable plane ticket and, at the last

moment, cannot take the trip. You can, however, sell the ticket. If you paid \$700 for the ticket, the cost of sending the ticket to someone through overnight mail is \$20, and you spend \$10 on a courier to get the ticket to the post office for overnight delivery, what is the minimum you should accept for the ticket?

- a. \$700 because that is what the ticket cost
- b. \$720 because that is the cost of the ticket and of getting it to the buyer
- c. \$730 because that is the total cost of the ticket and getting it to the buyer
- d. More than \$730, so that you can make a profit
- e. \$30 because the \$700 is a sunk cost

ANSWER: e

44. Sunk costs:

- a. can only be measured in monetary terms.
- b. are opportunity costs.
- c. should influence a person's choice if that person is a marginal decision maker.
- d. lower the efficiency of production.
- e. should not be considered when making economic decisions.

ANSWER: e

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 8

45. The law of comparative advantage says that a person should produce a good if he or she:

- a. has the greatest desire to consume that good.
- b. has the lowest opportunity cost of producing that good.
- c. has an absolute advantage in a related activity.
- d. has a comparative advantage in a related activity.
- e. is equally good at producing this good as someone else is.

ANSWER: b

46. The law of comparative advantage does not apply to:

- a. entire nations.
- b. natural resources like air and sunshine.
- c. individuals.
- d. firms.
- e. regions of a country.

ANSWER: b

47. The law of comparative advantage says that:

- a. the individual with the lowest opportunity cost of producing a particular good should produce it.
- b. comparative advantage exists only when one person has an absolute

advantage in the production of two goods.

c. whoever has a comparative advantage in producing a good also has an absolute advantage in producing that good.

d. whoever has an absolute advantage in producing a good also has a comparative advantage in producing that good.

e. gains from trade are possible only when one person has a comparative advantage in producing both goods.

ANSWER: a

48. Comparative advantage refers to:

a. the ability of an individual to specialize and produce a greater amount of some good than another individual.

b. the number of units of a good given up in order to acquire something.

c. the ability of an individual to produce a good at a lower opportunity cost than some other individual can.

d. the amount of labor a particular individual needs to produce a fixed amount of capital goods.

e. the ability of an individual to produce a good using fewer labor hours than other individuals.

ANSWER: c

49. The law of comparative advantage states that the person who should produce a good is the person who:

a. has the lowest opportunity cost of producing that good.

b. can produce that good using the fewest resources.

c. will produce that good using the most expensive resources.

d. has the most desire for that good.

e. has produced that good in the past.

ANSWER: a

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 9

50. John takes 10 minutes to iron a shirt and 20 minutes to type a paper. Harry takes 10 minutes to iron a shirt and 30

minutes to type a paper. Which of the following statements is correct?

a. Harry has a comparative advantage in ironing.

b. Harry has a comparative advantage in typing.

c. Harry has an absolute advantage in typing.

d. Harry has an absolute advantage in ironing.

e. Neither can gain from specialization and exchange.

ANSWER: a

51. Don can produce 10 pens or 20 pencils in one hour while Bob can produce 5 pencils or 15 pens in one hour. Which of the following statements is correct?

- a. Bob has an absolute advantage over Don in the production of pencils.
- b. Bob has an absolute advantage over Don in the production of pens.
- c. Bob has a comparative advantage over Don in the production of pencils.
- d. Don has a comparative advantage over Bob in the production of pens.
- e. Don does not have a comparative advantage in the production of either good.

ANSWER: b

52. If Jason can wash a car in 20 minutes and wash a dog in 10 minutes and Megan can wash a car in 15 minutes and wash a dog in 15 minutes, which of the following statements is true?:

- a. The opportunity cost of washing a car is greater for Megan.
- b. The opportunity cost of washing a car is one dog bath for Jason.
- c. Megan could wash two cars in the time it takes Josh to wash a dog.
- d. Jason has both a comparative and an absolute advantage in washing a dog.
- e. The opportunity cost of washing a dog is lower for Jason.

ANSWER: d

53. Janis mows the lawn in 1 hour and types a paper in 1 hour. Kristen mows the lawn in 2 hours and types a paper in 1 hour. Which of the following statements is true?

- a. Kristen has an absolute advantage in typing and a comparative advantage in mowing.
- b. Janis has an absolute advantage in both activities and a comparative advantage in typing.
- c. Janis has an absolute advantage in both activities and a comparative advantage in mowing.
- d. The opportunity cost of mowing the lawn is greater for Kristen than it is for Janis.
- e. Neither Janis nor Kristen would gain from specialization.

ANSWER: d

54. If Monica has a comparative advantage in baking and George has a comparative advantage in sewing, then:

- a. Monica must have an absolute advantage in baking.
- b. Monica must have an absolute advantage in sewing.
- c. George must have an absolute advantage in baking.
- d. George must have an absolute advantage in sewing.
- e. we can conclude nothing about absolute advantage.

ANSWER: e

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 10

55. If Evan has an absolute advantage in cleaning and bookkeeping when compared to Gloria, then:

- a. Evan must also have a comparative advantage in cleaning and bookkeeping.
- b. Evan must have a comparative advantage in cleaning.
- c. Evan must have a comparative advantage in bookkeeping.
- d. Gloria has a comparative advantage in neither activity.
- e. we can conclude nothing about comparative advantage.

ANSWER: e

56. If Jeremy has an absolute advantage in cooking and Margaret has an absolute advantage in cleaning, then:

- a. Jeremy has a comparative advantage in cooking and Margaret has a comparative advantage in cleaning.
- b. Jeremy has a comparative advantage in cleaning and Margaret has a comparative advantage in cooking.
- c. Margaret has a comparative advantage in cleaning, but we can conclude nothing about Jeremy.
- d. Jeremy has a comparative advantage in cooking, but we can conclude nothing about Margaret.
- e. we can conclude nothing about comparative advantage.

ANSWER: e

57. If Robin has an absolute advantage in both gardening and baking when compared to Robert, then:

- a. Robin cannot benefit by trading with Robert.
- b. Robin can benefit by specializing in gardening if Robert specializes in baking.
- c. Robin can benefit by specializing in baking if Robert specializes in gardening.
- d. Robin and Robert may benefit from trading, but there is insufficient information to determine who should specialize in what.
- e. neither Robin nor Robert can benefit from trading with the other.

ANSWER: d

58. If one person has an absolute advantage in producing both of two goods, then that person:

- a. must also have a comparative advantage in both goods.
- b. cannot benefit from trade.
- c. cannot have a comparative advantage in either good.
- d. will have a comparative advantage in only one good.
- e. should specialize in the production of both goods.

ANSWER: d

Name: Class: Date:

Chapter 02: Economic Tools and Economic Systems

Copyright Cengage Learning. Powered by Cognero. Page 11

59. A country has an absolute advantage in the production of a good if that country:

- a. can produce the good using fewer resources than another country would require.
- b. has the lowest opportunity cost of producing the good and can produce it with the fewest resources.
- c. has the lowest opportunity cost of producing the good, regardless of whether it is produced with the fewest resources.
- d. has the greatest opportunity cost of producing the good, regardless of whether it is produced with the fewest resources.
- e. has the greatest opportunity cost of producing the good and produces it with the fewest resources.

ANSWER: a

60. If Sam can chop up more carrots per minute than Joe can, then:

- a. Joe has an absolute advantage in carrot chopping.
- b. Joe must have a comparative advantage in carrot chopping.
- c. Sam has an absolute advantage in carrot chopping.
- d. Sam must have a comparative advantage in carrot chopping.
- e. we can conclude nothing about absolute advantage.

ANSWER: c

61. Eileen has a comparative advantage over Jan in piano tuning, but not shoe polishing. Therefore, _____.

- a. Jan must have an absolute advantage in piano tuning
- b. Eileen must have an absolute advantage in shoe polishing
- c. Jan must have a lower opportunity cost of shoe polishing
- d. Eileen must have an absolute advantage in shoe polishing and in piano tuning
- e. Eileen must have an absolute advantage in piano tuning

ANSWER: c

62. If Helen can paint one room in the time it takes her to bake 40 cakes and Josh can paint one room in the time it takes him to bake 60 cakes, which of the following is true?

- a. The opportunity cost of painting is higher for Helen.
- b. The opportunity cost of baking cakes is lower for Josh.
- c. The opportunity cost of painting one room is 1/40 of a cake for Helen.
- d. The opportunity cost of baking one cake is 60 rooms painted for Josh.
- e. The opportunity cost of cakes cannot be computed.

ANSWER: b