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Chapter 02

Resource Utilization

Multiple Choice Questions

The United States economy _____ operates on its production possibility curve.

Always

Sometimes

Never

Which statement is true?

Entrepreneurial ability is in short supply in the U.S.

Land, labor and capital may be considered passive resources.

The concept of opportunity cost is irrelevant when there is scarcity.

None of these statements are true.

In the United States' economy

there is no need to economize.

we rarely have to economize.

only the rich have to economize.

nearly everyone has to economize.

2-1

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The term "the affluent society" was coined by

Michael Harrington.

John Kenneth Galbraith.

Karl Marx.

Adam Smith.

Each of the following is an example of an economic resource except

land.

money.

capital.

labor.

The United States' economy would be operating at full employment with labor unemployment rate of ___ percent and a capacity utilization rate of ____ percent.

5; 95

5; 85

10; 95

10; 85

Which statement is true?

On the production possibilities frontier there is zero unemployment.

On the production possibilities frontier 95 percent of the labor force is employed.

To get out of a recession, we must produce at some point beyond our production possibilities frontier.

To have economic growth, we must push the production possibilities frontier inward.

In order to raise the rate of economic growth we would need to

- increase the level of capital.
- reduce the level of labor.
- spend more on military goods.
- spend more on consumer goods.

The main reason the United States' standard of living is higher than that of India and China is that we have more

- land.
- labor.
- capital.
- money.

Which statement is true?

- it is easier to attain full employment than full production.
- employment discrimination no longer exists in the U.S. labor market.
- The United States is usually operating on the production possibilities frontier.
- None of these statements are true.

The main effect of employment discrimination is

- Unemployment.
- Underemployment.
- Greater efficiency.
- Greater production.

The United States temporarily operated outside the production possibilities frontier in

1933.

1943.

1973.

1982.

Which statement is true?

The economic problem is limited to poverty.

Scarcity is no longer an economic problem in the United States.

If we all had more money there would be less scarcity.

None of these statements are true.

Which statement is true?

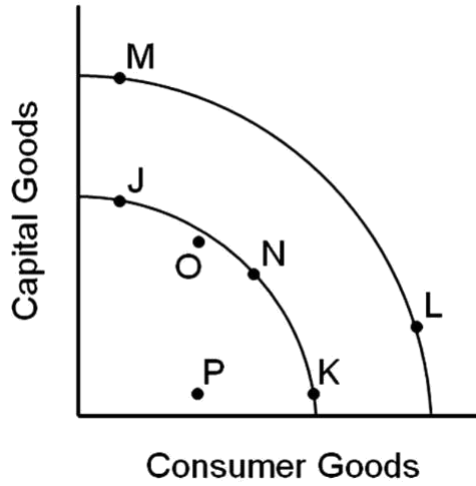
The United States is usually inside our production possibilities curve.

The United States is usually outside our production possibilities curve.

The United States is usually on our production possibilities curve.

None of the statements are true.

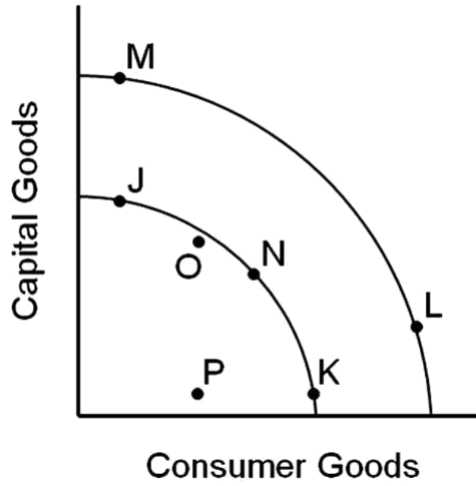
15.



Which movement between two points represents economic growth?

- A. J to K
- B. K to L
- C. L to M
- D. M to N

16.

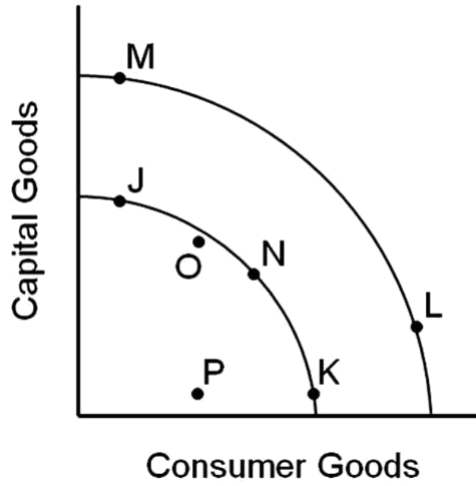


Assuming the inner curve is the United States' current production possibilities frontier, the United States' economy usually operates at ____.

- A. Point P
- B. Point O
- C. Point N
- D. Point L

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17.

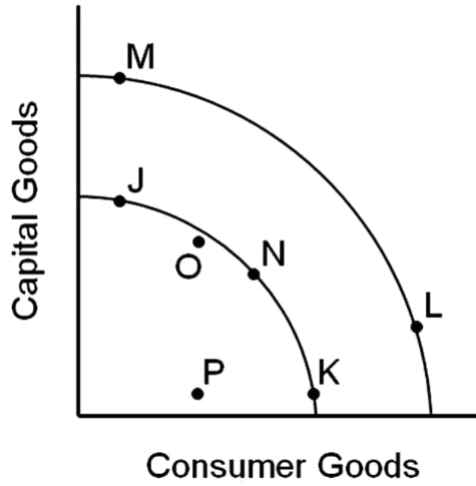


Assuming the inner curve is the United States' current production possibilities frontier, points J, N and K represent

- A. an inefficient use of resources.
- B. an output that is not possible to produce.
- C. points of unemployed resources.
- D. points of fully employed resources.

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18.

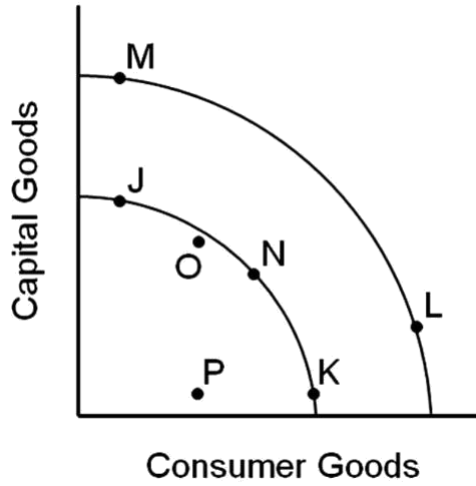


Assuming the inner curve is the United States' current production possibilities frontier, which of the following points would eventually lead to the greatest level of economic growth?

- A. Point J
- B. Point N
- C. Point K
- D. Point P

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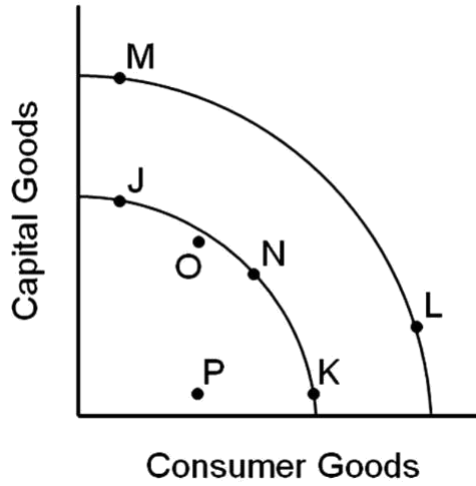
19.



A movement from point J to point M would represent

- A. an increase in consumer goods, but not capital goods.
- B. an increase in capital goods, but not consumer goods.
- C. an increase in both capital goods and consumer goods.
- D. no increase in either capital goods or consumer goods.

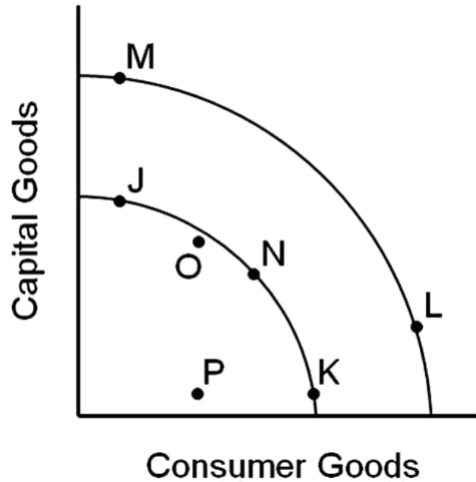
20.



A movement from point N to point L would represent

- A. an increase in both consumer goods and capital goods.
- B. a decrease in both consumer goods and capital goods.
- C. an increase in consumer goods, but a decrease in capital goods.
- D. an increase in capital goods, but a decrease in consumer goods.

21.



The opportunity cost of a movement from point N to J would

- A. be the lost production of some capital goods.
- B. be the lost production of some consumer goods.
- C. be slower economic growth in the future.
- D. not involve any sacrifice of either capital or consumer goods.

If a nation is currently operating at a point inside its production possibilities curve, it

- can increase the output of one good without decreasing the output of the other good.
- has fully employed resources.
- has no inefficiently employed resources.
- is operating at full potential.

Which of the following is not demonstrated by a production possibility curve?

- scarcity
- opportunity cost
- necessity for choice due to scarcity
- price

People are forced to economize because of

competition.

pressure to conform.

scarcity.

the absence of money.

The United States' basic economic problem would be solved if

everyone were given \$500,000.

the population stopped growing.

all sickness and disease were wiped out.

our wants could be satisfied with available resources.

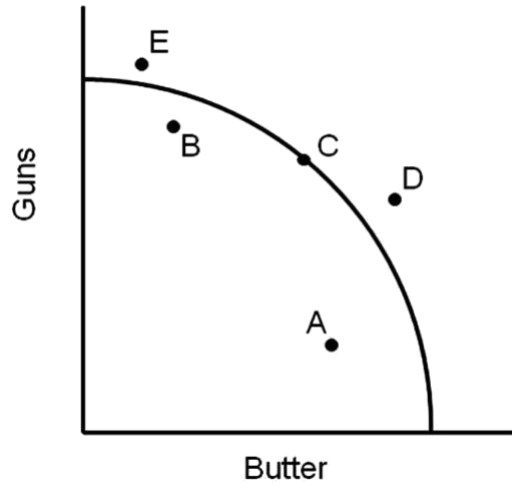
If the economy is operating at a 7 percent unemployment rate we are operating

inside the production possibilities curve.

on the production possibilities curve.

outside the production possibilities curve.

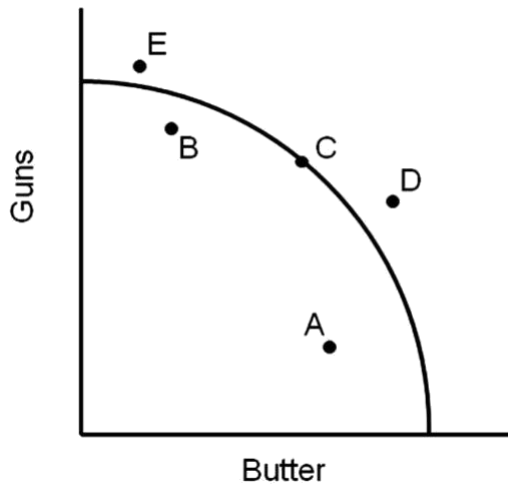
27.



In 1939 the U.S. economy was operating at point _____.

- A
- B
- C
- D

28.



In 1944 the U.S. economy was temporarily operating at point _____.

- A
- B
- C
- D

We can increase the United States' rate of economic growth by

- devoting more output to capital goods.
- devoting more output to improving our technology.
- devoting more output to improving the quality of our labor force.
- all of the choices are true.

If an assumption is made that a society is operating on its production possibilities curve, an outward shift of the curve implies

- economic growth has occurred.
- the society is making more efficient use of its available resources.
- consumer demand has increased.
- the present value of capital resources has increased.

Resources include

land, labor and money.

entrepreneurship and capital.

capital and money.

corporations and partnerships.

The study of economics

is a very narrow endeavor.

is a way of analyzing decision-making processes caused by scarcity.

focuses on how a business should function.

is concerned with proving that capitalism is better than socialism.

Economic growth can be shown by _____ production possibilities curve.

an outward shift of the

an inward shift of the

a movement from one point to another along the

a movement to a point inside the

Economic growth is difficult for poor countries because

governments must fund capital production and research out of tax revenues.

resources must be taken away from consumer goods to pay for capital goods.

those wealthy enough to invest in domestic industries may choose to invest abroad instead.

All of the choices are true.

The United States economy is generally operating _____ the production possibilities curve.

inside

outside

on

Economic growth occurs when

a large part of a country's population is poor.

a society sacrifices an amount of one good for more of another along its production possibility frontier.

a society acquires additional resources or when its technology advances.

there is unemployment of labor but other resources are used efficiently.

If you own a building and you decide to use that building to open a restaurant,

there are no sunk costs involved in this decision.

there is no opportunity cost of using this building for a restaurant because you own it.

the only cost relevant to this decision is the price you paid for the building.

there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.

Which of the following is an example of opportunity cost?

The income that could have been earned by working full-time instead of going to college.

The decline in the grades of a student athlete that occurs because she decides to spend more time practicing sports than on her academic work.

The value of other things you could have done with the same time and money it cost you to go to the movies.

All of the choices are examples of opportunity cost.

The opportunity cost for a student of attending college for a year is measured by

the benefit received by the student.

the tuition paid for the year.

the value of the most valued opportunity foregone by attending college.

the total money outlays associated with attending college.

The economic problem is essentially one of deciding how to make the best use of

limited resources to satisfy limited wants.

unlimited resources to satisfy limited wants.

limited resources to satisfy unlimited wants.

unlimited resources to satisfy unlimited wants.

Jeff's entertainment budget is divided between \$8 movie tickets and \$40 hockey tickets. The opportunity cost to Jeff of going to an extra hockey game is

four fewer \$10 pizzas.

five movies.

20 DVD rentals (costing \$2 each).

all of the choices are true.

An inward shift in the entire production possibilities frontier

represents economic growth.

means that the economy can produce more of both goods.

takes place if there is an expansion in the labor force.

means that previous levels of production are now unobtainable.

Entrepreneurship is

the financial capital necessary to launch a new business.

the talent to develop new products and processes and to organize production to make goods and services available.

unskilled labor.

the capital resources used to produce goods and services.

Which of the following statements about the concept of opportunity cost is true?

The opportunity cost of a decision only includes monetary outlays.

The opportunity cost of a decision is the next best foregone alternative.

All decisions have zero opportunity cost.

The opportunity cost of a college education is measured by the payments for tuition and books.

The statement "By the time our grandchildren are born, scarcity will not be a problem" is

possible only if technology advances at a great pace.

true, because we will learn to limit our wants in the future.

true, because by that time everyone's basic needs will be met.

false, because people always want more than there is available.

The opportunity cost of producing one additional truck is

the profit that could have been earned from selling that truck.

the amount of other goods that could not be produced because productive resources were used instead to produce that truck.

the price of the truck.

all of the choices are true.

The reason that opportunity costs arise is that

people have unlimited wants.

there are no alternative decisions that could be made.

an economy relies on money to facilitate exchange of goods and services.

resources are scarce.

A small economy produces only pizzas and jeans. If an economy is operating inside its production possibility frontier, which of the following statements is true?

it will be possible to produce more pizzas without decreasing the production of jeans.

the economy will be operating at a point on its production possibilities curve.

the economy will be operating at a point outside its production possibilities curve.

it will not be possible to produce more jeans or pizzas.

If an economy is operating on its production possibility frontier, which of the following statements is true?

Products are produced using inefficient production technology.

The capacity utilization rate is less than full production.

The economy's labor force is fully employed.

A fall in the price of an input will enable the economy to produce outside the production possibility frontier.

Which of the following is not a factor of production?

Land

Money

Capital

Labor

The existence of unemployment can be illustrated on a production possibilities curve by a(n)

point below or inside the surface of the curve.

inward shift of the curve.

movement along the curve.

outward shift of the curve.

Which of the following will shift an economy's production possibilities curve outward?

An improvement in technology

An increase in the unemployment rate

A decrease in land, labor or capital

A decrease in the unemployment rate

The production possibilities curve illustrates the basic principle that

an economy's capacity to produce increases in proportion to its population size.

if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.

an economy will automatically seek that level of output at which all of its resources are employed.

the production of more of any one good will in time require smaller and smaller sacrifices of other goods.

A point along a production possibilities curve shows

that in order to acquire more of one good, none of the alternative good must be given up.

that in order to acquire more of one good, some of the alternative good must be given up.

that any amount of goods could be produced by society if people worked harder.

various combinations of guns and butter that can be produced under conditions of 6 percent unemployment.

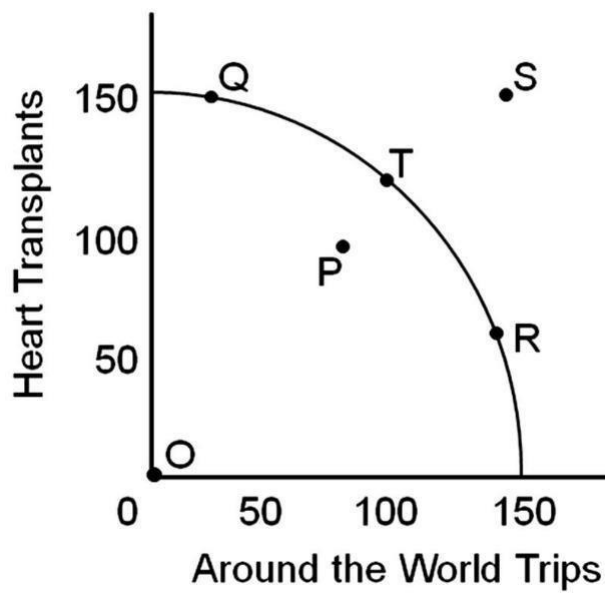
The production possibilities curve tells us that if full employment exists and a nation wishes to permanently increase its production of military goods, it must

also increase its production of nonmilitary goods.

reduce its output of nonmilitary goods.

suffer inflation.

suffer unemployment.



56.

If the economy was operating at point O (where the two axes come together), we would have an unemployment rate of ____ percent.

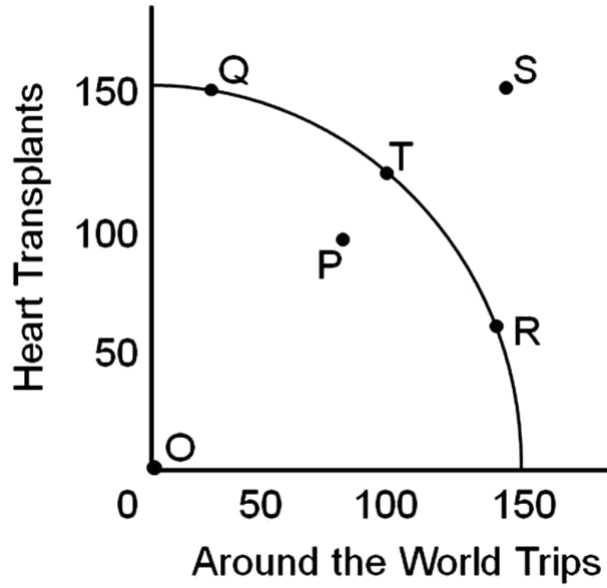
5

50

95

100

57.



If we were at point ___ it would be possible to produce more heart transplants and more round-the-world trips.

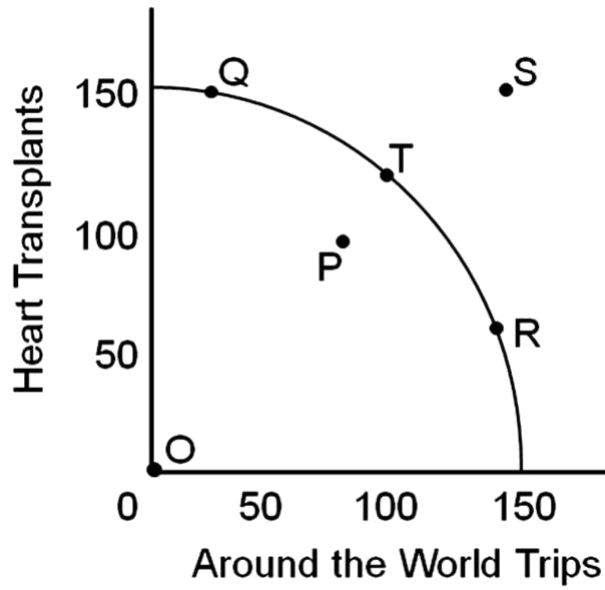
P

Q

R

S

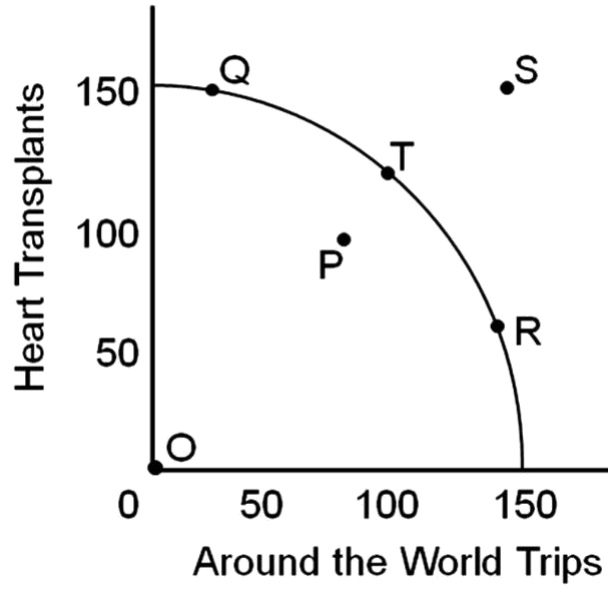
58.



If we are currently at point T, we can get to point S in the long run

- A. through economic growth over a period of years.
- B. immediately by using resources more efficiently.
- C. immediately by reducing the unemployment rate.
- D. immediately through technological development.

59.

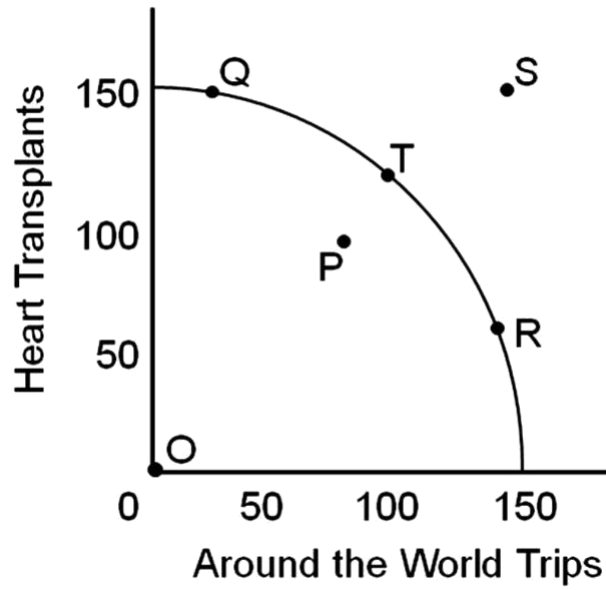


We could increase the production of both heart transplants and round-the-world trips if we moved to point T from point

- P.
- Q.
- R.
- S.

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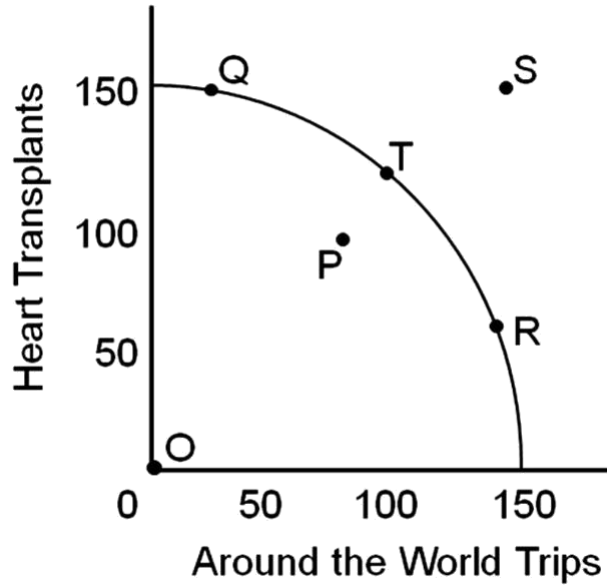
60.



If we moved from point T to point R we would be

- A. giving up trips for more transplants.
- B. giving up transplants for more trips.
- C. gaining both trips and transplants.
- D. losing both trips and transplants.

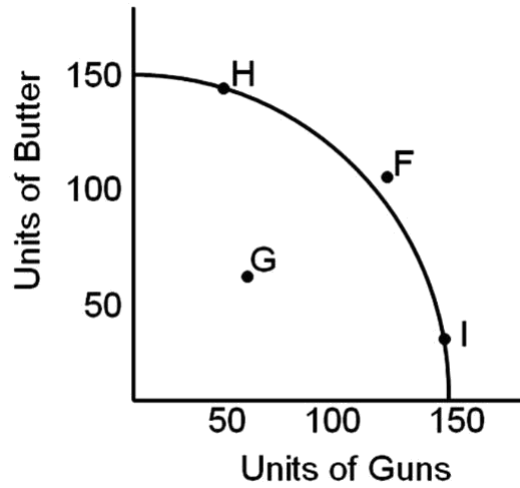
61.



The opportunity cost of moving from point T to point Q would be

- A. giving up trips around the world.
- B. giving up heart transplants.
- C. gaining trips around the world.
- D. gaining heart transplants.

62.

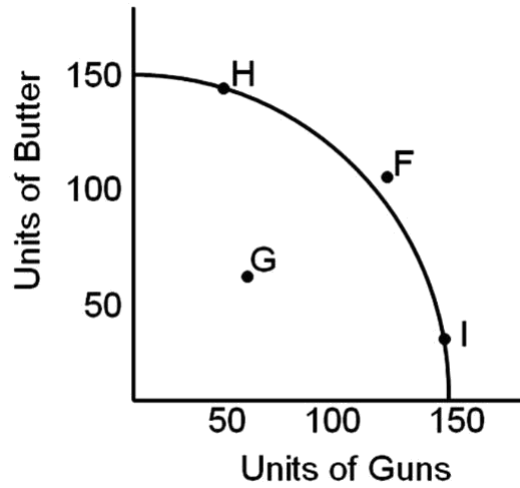


If the United States economy were operating on its production possibilities frontier, it would have the best chance of quickly and temporarily reaching point F if

- A. we were at war.
- B. we were in a depression.
- C. we were in a period of inflation.
- D. we invested more in plant and equipment.

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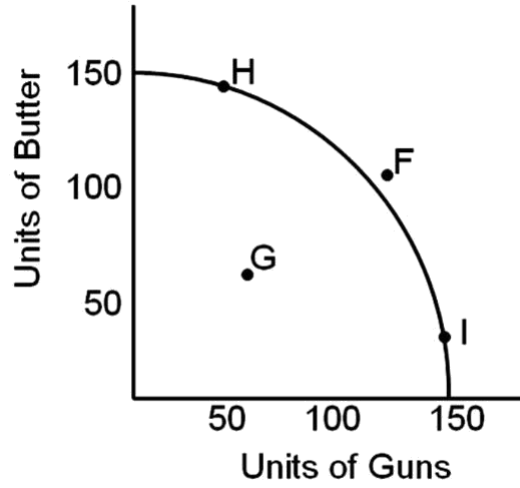
63.



Which point best represents the economy in a depression?

- A. Point H
- B. Point F
- C. Point I
- D. Point G

64.



During most of the United States' involvement in World War II we temporarily operated at point

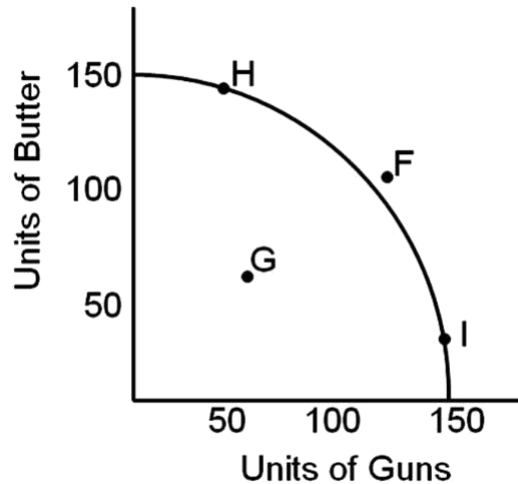
F.

G.

H.

I.

65.



Point F

- A. is where the United States' economy operates most of the time.
- B. is unattainable.
- C. represents a severe recession.
- D. can be temporarily attained under unusual circumstances.

Improving the education level of the labor force will

- shift the production possibilities curve inward.
- not shift the production possibilities curve since the total size of the labor force has not been changed.
- shift the production possibilities curve outward.
- cause a movement from a point inside the production possibilities curve to a point on the curve.

Unlimited wants need not be a problem if

- resources are also unlimited.
- resources are flexible in what they can do.
- resources are basic energy resources like oil.
- resources are human resources such as skilled labor.

Individuals are forced to make choices because

human wants are limited.

the supply of resources is infinite.

wants are unlimited and resources are scarce.

resources are unlimited.

Which of the following would an economist classify as capital?

A public corporation's employees

A share of stock

A computer used by an accountant

A deposit of silver

Entrepreneurs

receive most of their income through inheritance.

receive interest payments for their services.

take risks in order to earn profits.

are unemployed except during economic boom periods.

Scarcity exists because

of unlimited resources.

human wants are enormous relative to the means available to satisfy them.

production is limited only by technology and human energy.

advertising creates unnatural desires for surplus goods.

A political candidate promises voters more funding for AIDS research and child care and assures them they will not have to sacrifice any other goods or services to obtain the additional programs.

This may be possible if the economy has unemployed resources.

This is possible only in a fully employed economy.

This is possible if the economy is producing on its production possibilities curve.

None of the choices are possible.

Which of the following demonstrates opportunity cost?

With a new strain of wheat, the wheat crop of Canada grows by 20% with no change in the productive resources devoted to wheat farming.

A tax cut increases people's purchases of consumer goods and decreases state expenditures on education.

The ravages of World War II reduced Japan's ability to produce goods.

Flora gets a 10% raise and increases her expenditures on movies.

In 1943-1945

there was substantial unemployment in the U.S.

there was substantial excess plant and equipment in the U.S.

the U.S. had not yet completed its recovery from the depression.

the U.S. was temporarily operating at a point beyond the production possibilities frontier.

Every social system confronts scarcity and therefore must

produce only free goods.

try to produce outside its production possibilities frontiers.

economize.

allocate goods by government edict.

_____ is attained when the maximum possible output of any one good is produced, given the output of other goods.

- Productive efficiency
- Economic growth
- Opportunity cost
- Employment discrimination

Which statement is true?

- Productive efficiency has never been achieved.
- The U.S. economy achieved productive efficiency from mid-1997 through mid-2001.
- The U.S. economy achieved productive efficiency from 1980 to 1997.
- The U.S. economy generally attains productive efficiency.

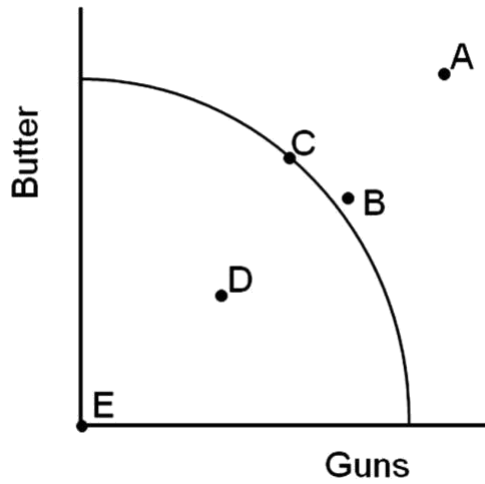
In the 1950s

- more women were unemployed than underemployed.
- more women were underemployed than unemployed.
- about the same number of women were unemployed as underemployed.

In the context of the global economy, the United States' capacity utilization rate _____ than it was just a few decades ago.

- is much more important
- is much less important
- has the same importance

80.

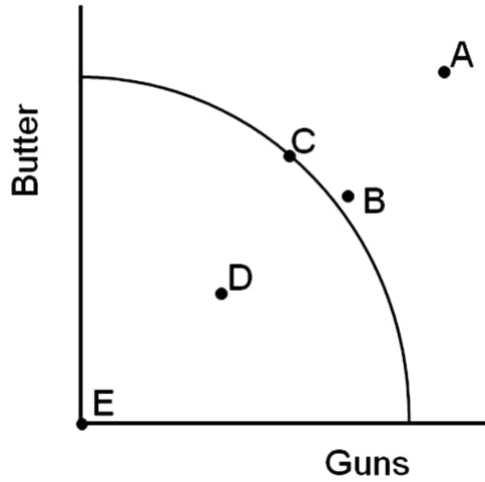


Which point shows where the United States economy was operating during the low point of the Great Depression?

- A. Point A
- B. Point B
- C. Point C
- D. Point D

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81.

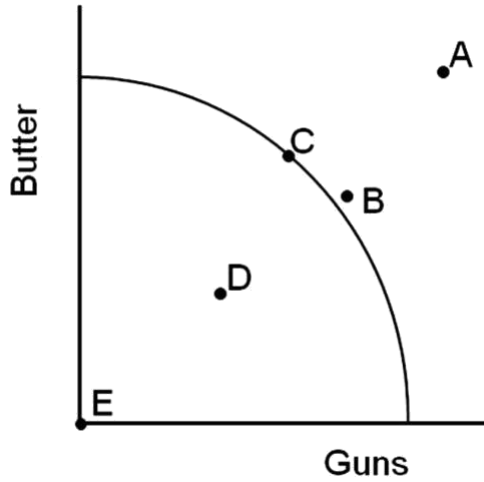


Which point shows where the United States economy was temporarily operating during World War II, when we had reduced the unemployment rate to about two percent?

- A. Point A
- B. Point B
- C. Point C
- D. Point D

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82.

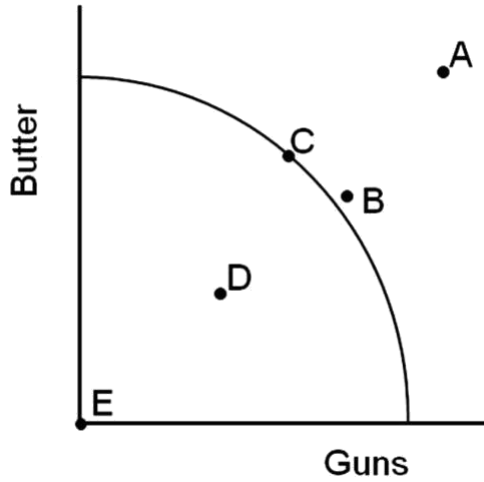


Which point shows where the United States economy would have a 100 percent unemployment rate?

- A. Point B
- B. Point C
- C. Point D
- D. Point E

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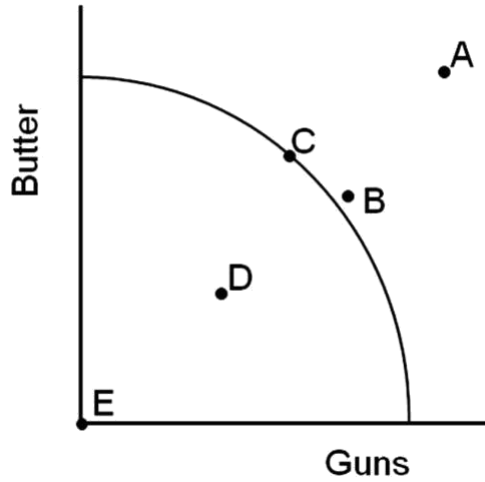
83.



Which set of points would show a movement from depression to full employment?

- A. a movement from Point C to B
- B. a movement from Point B to A
- C. a movement from Point C to E
- D. a movement from Point D to C

84.



Which point would represent an unattainable combination of resources?

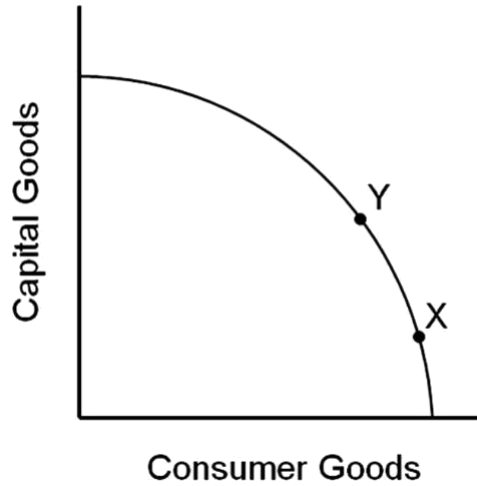
- A. Point A
- B. Point D
- C. Point C
- D. Point E

The central fact of economics is

- Production.
- Equilibrium.
- Efficiency.
- Scarcity.

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86.



Imagine that a country is at point X of this production possibilities frontier and a country is at point Y.

- A. The country at point X will probably grow faster than the country at point Y.
- B. The country at point Y will probably grow faster than the country at point X.
- C. The two countries will probably grow at about the same speed.
- D. There is no way of predicting which country will grow faster.

The United States

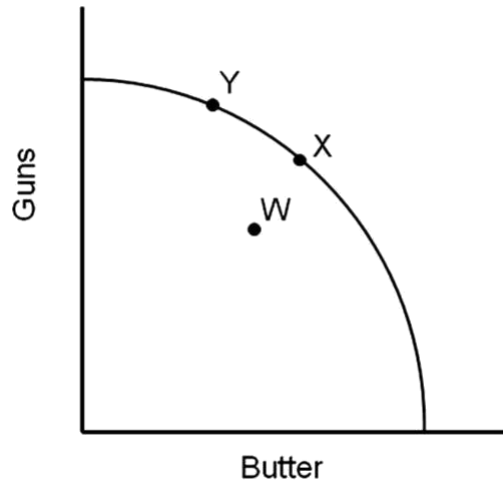
has sometimes attained productive efficiency.

usually attains productive efficiency.

never attained productive efficiency.

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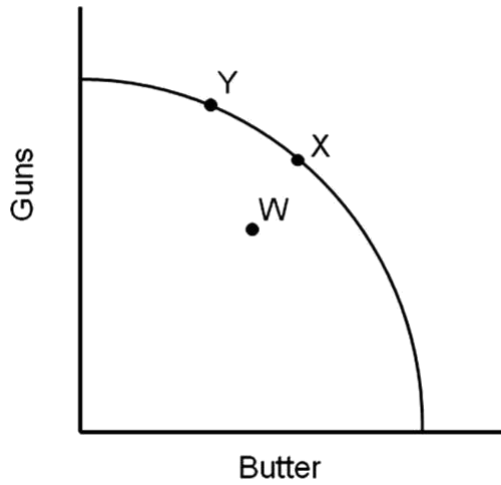
88.



The unemployment rate decreases when we go from

- A. W to X.
- B. X to W.
- C. X to Y.
- D. Y to X.

89.



If the economy is at full employment and war breaks out, we would move from

- A. W to X.
- B. X to W.
- C. X to Y.
- D. Y to X.

Which of the following will NOT shift an economy's production possibilities curve outward?

- an increase in technology
- an improvement in the literacy rate
- a reduction in the unemployment rate
- an increase in the number of workers available

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Referring to a production possibilities curve and the goods being compared, depict the economic event. The economy moves from full employment to a serious recession (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

Referring to a production possibilities curve and the goods being compared, depict the economic event. The literacy rate increases among workers (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. The bubonic plague (Black Death) in the 1300s killed one-third of Europe's population (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. Millions of immigrants came to the United States in the second half of the 19th century to work on the transcontinental railroad (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. The AIDS epidemic becomes rampant in America claiming millions of lives (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. The increase in government spending due to World War II pulls the U.S. economy out of a depression to full employment of resources (guns vs. butter).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

Referring to a production possibilities curve and the goods being compared, depict the economic event. Computerization in the 1990s launched thousands of new businesses in the United States (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. The SARS epidemic spreads rapidly throughout Toronto, Canada claiming millions of lives (capital vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. Widespread use of the assembly line revolutionizes U.S. industry in the early 20th century (capital vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

Referring to a production possibilities curve and the goods being compared, depict the economic event. Suppose the United States was at full employment in 2003 just before invading Iraq. Although the war was won quickly, winning the peace took a decade (guns vs. butter).

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

If the unemployment rate is 7 percent, the United States economy is operating

inside the production possibility curve.

on the production possibility curve.

outside the production possibility curve.

If the unemployment rate is 5 percent (full employment), the United States economy is operating

inside the production curve.

on the production curve.

outside the production curve.

Which of the following is not an institutional constraint that limits the United States' production possibilities?

Blue laws that restrict bars and liquor stores from opening on Sunday

Restrictions on child labor

The fact that Americans dislike working at night or on the weekends

Workers who are "in between" jobs

"The value of the next best alternative" defines

the Law of Increasing Costs.

the economic problem.

allocative efficiency.

opportunity cost.

Adam Smith noted in 1776 that

the wealth of nations comes from the money the nations have accumulated.

the wealth of nations comes from the gold the nations have accumulated.

the wealth of nations comes from the resources that produce the nation's goods and services.

the problem of scarcity had been licked.

John Maynard Keynes noted that

we could print all the money we want and still have scarcity.

"to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort."

the general notion that scarcity is due to not having enough money is an illusion.

we could print all the money we want and still have scarcity AND the general notion that scarcity is due to not having enough money is an illusion.

An outward shift in the entire production possibilities frontier

represents economic decline.

means that previous levels of production are now unobtainable.

means that the only way the economy can increase the production of one good is by producing less of an alternative good.

represents economic growth.

Which of the following will shift an economy's production possibilities curve inward?

- an improvement in technology
- an increase in the unemployment rate
- a decrease in land, labor or capital
- a decrease in the unemployment rate

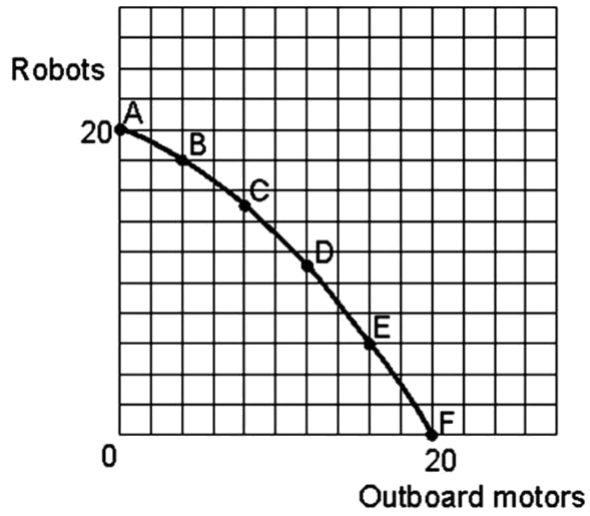
If you kept your money under your mattress rather than keeping it in a savings account at your local bank,

- you would not incur an opportunity cost.
- the opportunity cost of such an action would be the forgone interest of not putting the money in a savings account.
- the opportunity cost of such an action would be the gas money it took to drive to the bank.
- None of the choices are true.

Which of the following statements about full employment is true?

- Liberal economists insist that an unemployment rate of 4 percent constitutes full employment.
- Conservative economists feel that an unemployment rate of 6 percent is a realistic portrayal of full employment.
- Economists cannot agree on what constitutes full employment, thus 5% represents a reasonable compromise.
- All of these choices are true.

111.

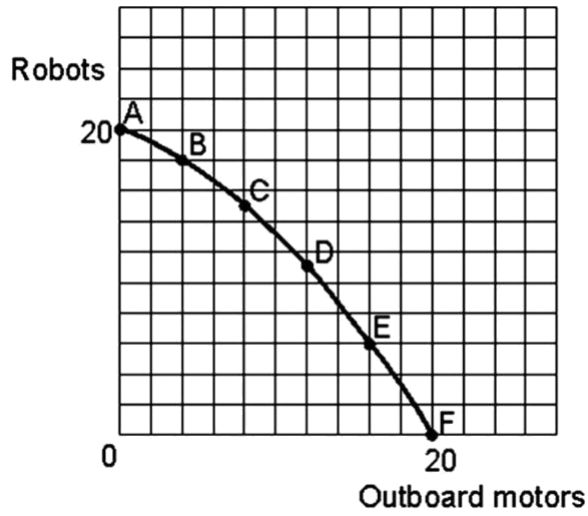


If the economy were producing at point A and moved to point B the opportunity cost in terms of lost production of robots would be

- A. 1 unit of robots.
- B. 2 units of robots.
- C. 3 units of robots.
- D. 2 units of outboard motors.

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112.

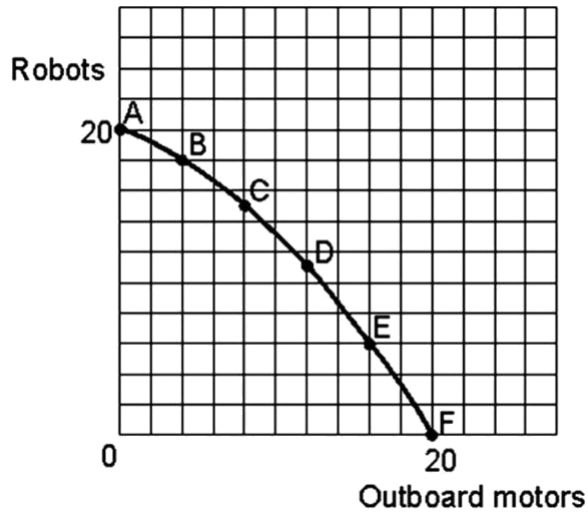


If the economy were producing at point E and moved to point B the opportunity cost in terms of lost production of outboard motors would be

- A. 16 units of outboard motors.
- B. 14 units of outboard motors.
- C. 12 units of outboard motors.
- D. 10 units of outboard motors.

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113.

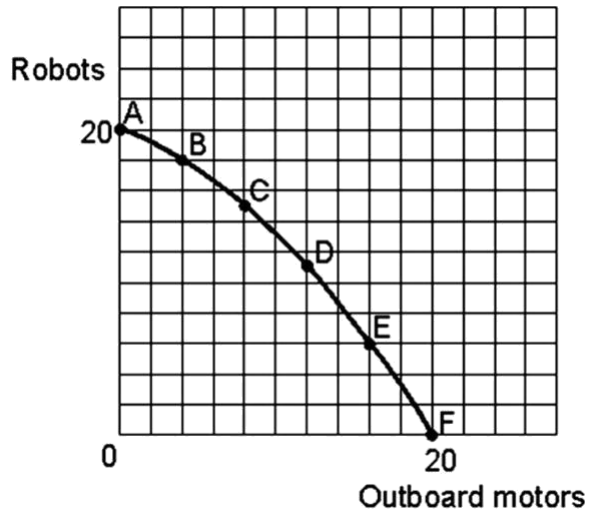


If the economy were producing at 12 units of outboard motors and 8 units of robots

- A. the economy would be at a point inside its production possibilities curve.
- B. the economy would be at a point outside its production possibilities curve.
- C. the economy would have unemployed resources.
- D. the economy would be at a point inside its production possibilities curve AND would have unemployed resources.

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114.

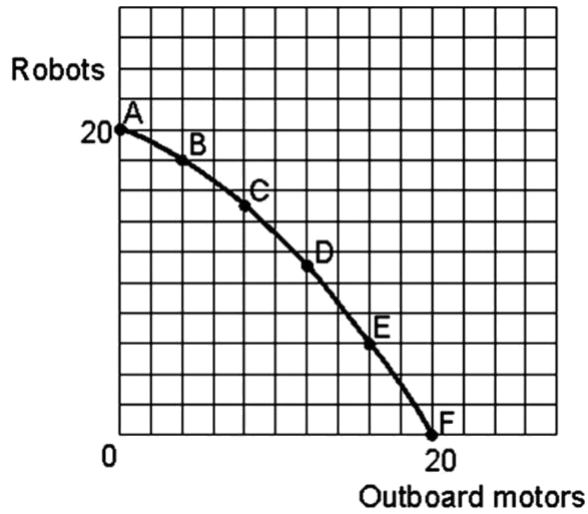


If the economy were producing at point D and moved to point C the opportunity cost in terms of lost production of outboard motors would be

- A. 2 units of outboard motors.
- B. 4 units of outboard motors.
- C. 12 units of outboard motors.
- D. 11 units of robots.

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115.



The economy could produce at 8 units of outboard motors and 18 units of robots

- A. immediately only under unusual circumstances such as war.
- B. if there is economic growth over a period of years.
- C. under no circumstances.
- D. immediately only under unusual circumstances such as war AND if there is economic growth over a period of years.

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116. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy were producing at point C and moves to point B

- A. 4 units of capital goods are gained, while the capacity to produce 32 consumer goods are lost.
- B. 16 units of capital goods are gained at an opportunity cost of producing 40 consumer goods.
- C. 16 units of capital goods are gained at an opportunity cost of producing 72 consumer goods.
- D. 4 units of capital goods are gained, while the capacity to produce 72 consumer goods are lost.

117. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy produces 12 capital goods and 40 consumer goods,

- A. it is producing outside its production possibilities curve.
- B. this combination of output will most likely result in economic growth.
- C. the ability to produce more consumer goods can only be realized by sacrificing capital goods.
- D. this economy has some unemployed resources.

118. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the society chooses point B instead of point C,

- A. economic growth is more likely.
- B. economic growth is less likely.
- C. the chances of achieving economic growth will not be affected.
- D. unemployment will result.

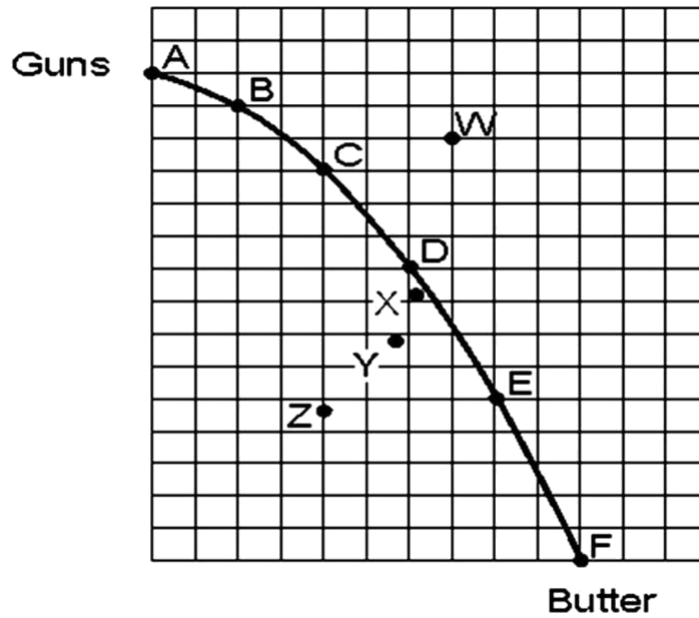
119. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy were producing at point E and moves to point D,

- A. resources will shift from producing capital goods to producing consumer goods.
- B. resources will shift from producing consumer goods to producing capital goods.
- C. more capital goods can be produced without any sacrifice in consumer goods production.
- D. more consumer goods can be produced without any sacrifice in capital goods production.

120.

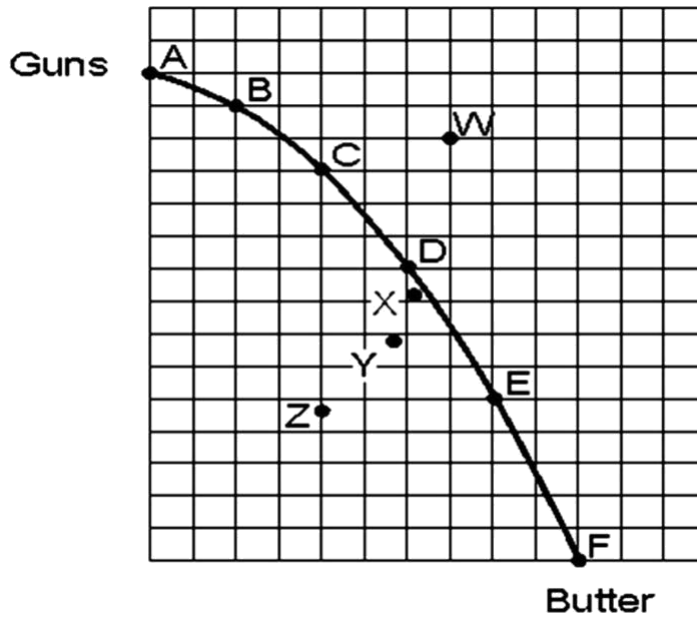


If the economy was producing at point X and moved to point Y,

- A. it would have moved from where the economy operates most of the time to a severe recession.
- B. it would have moved from where the economy operates most of the time to a depression.
- C. the unemployment rate would increase.
- D. it would have moved from where the economy operates most of the time to a severe recession AND the unemployment rate would increase.

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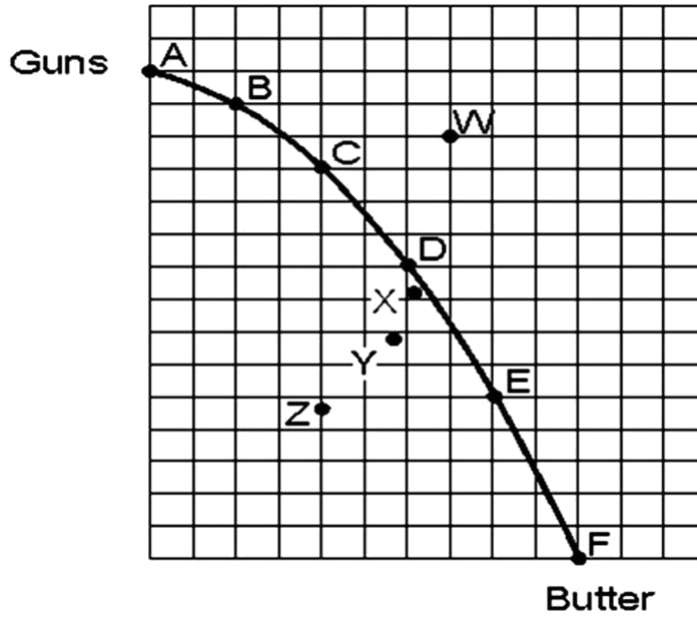
121.



The economy could reach point W if it

- A. reduced the unemployment rate.
- B. achieved economic growth.
- C. decreased its quantity of land, labor and capital.
- D. shifted resources from butter production into the manufacturing guns.

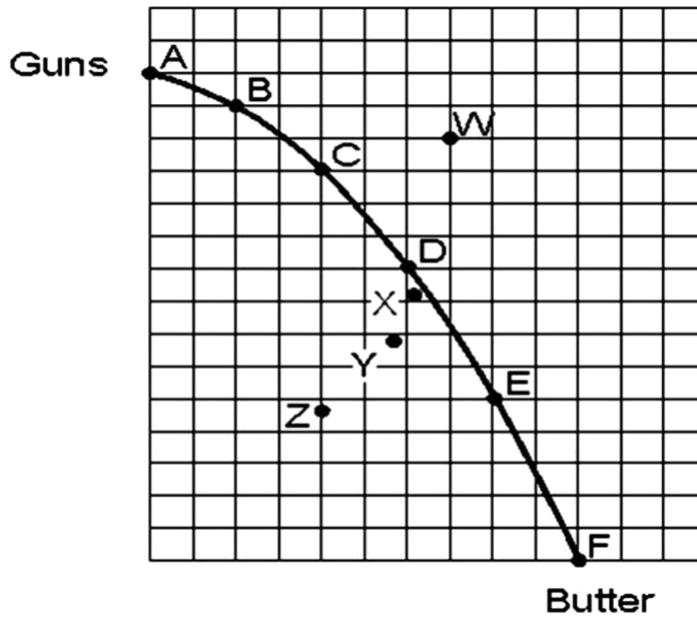
122.



If the economy was producing at point D and moved to point C

- A. the unemployment rate would decrease.
- B. the production possibilities frontier would shift outward.
- C. the production possibilities frontier would shift inward.
- D. None of these choices are true.

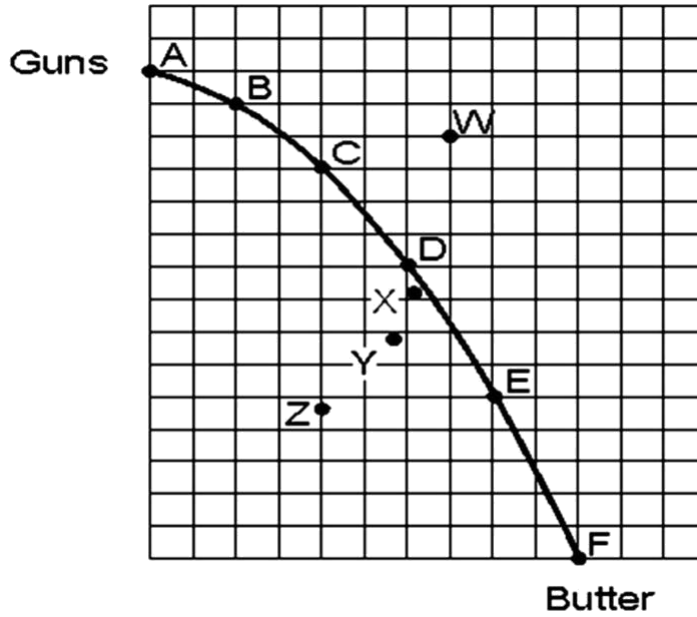
123.



If the economy were producing at point F,

- A. it would not be using its resources efficiently.
- B. it would be in a recession.
- C. it could gain units of guns without having to sacrifice units of butter.
- D. it would specialize exclusively in butter production.

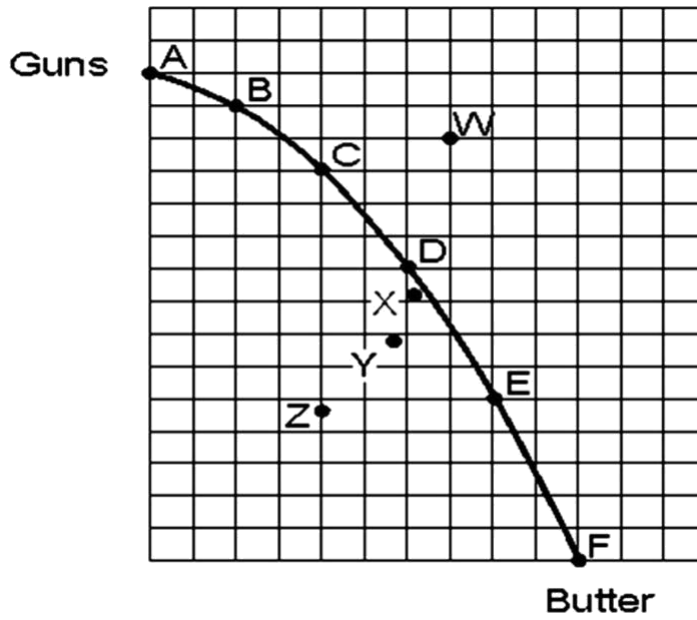
124.



If the economy were producing at point E and moved to point D,

- A. the unemployment rate would increase.
- B. the unemployment rate would decrease.
- C. the production possibilities would shift outward.
- D. the economy would shift resources from producing butter to increasing the production of guns.

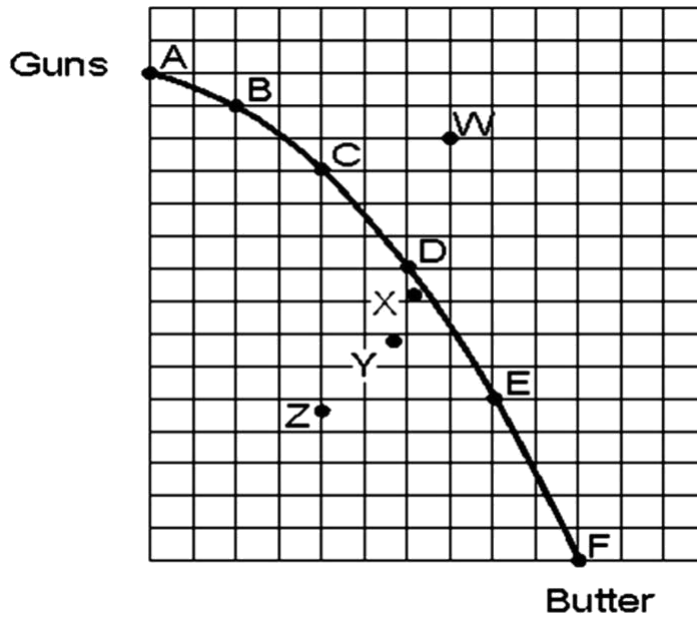
125.



If the economy were at full employment and is producing at point Y,

- A. the unemployment rate would increase.
- B. the unemployment rate would decrease.
- C. the production possibilities frontier would have shifted inward.
- D. the production possibilities frontier would have shifted outward.

126.



If the economy were producing at point Z and moved to point D,

- A. it could only produce more butter at the sacrifice of some gun production.
- B. it could only produce more guns at the sacrifice of some butter production.
- C. it could produce more guns and more butter at the same time.
- D. it would be impossible to produce more guns without the sacrifice of some butter production.

Which statement is true?

Entrepreneurial ability is abundant in the U.S.

The entrepreneur sets up a business and risks his or her own money.

Land, labor and capital may be considered passive resources.

All of the statements are true.

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Which statement is true?

Entrepreneurial ability is considered a passive resource.

All entrepreneurs are inventors.

The entrepreneur has been the central figure in the long economic success in the U.S.

The basic payment made to the owners of capital is rent.

Capital refers to

manufactured goods used to produce other goods or services.

the work and time for which employees are paid.

natural resources as well as "man"-made goods.

the person who assembles the needed resources to start a business.

All of the following statements are true about entrepreneurship except:

The entrepreneur assembles needed resources.

The entrepreneur risks her or his own money.

The entrepreneur reaps the profits or suffers the losses of the enterprise he or she creates.

The term entrepreneur is synonymous with the term inventor.

Which statement about entrepreneurship in America is true?

Alexander Graham Bell and Thomas Edison were two of the most famous American inventors who became entrepreneurs.

Often the entrepreneur is an innovator.

The vast majority of entrepreneurs in America either work for themselves or have just one or two employees.

All of the statements are true.

Opportunity cost can be best defined as

all sunk costs.

the value of the best alternative given up when making a choice.

the explicit cost of an activity.

the cost of making one additional unit.

The entrepreneur

runs his or her own business and risks his or her own money.

does not necessarily run her or his own business nor risks her or his own money.

runs his or her own business, but does not necessarily risk his or her own money.

does not necessarily run her or his own business, but does risk her or his own money.

Examples of employment discrimination would include

the legendary Negro league pitcher Satchel Paige who was not allowed to pitch in the major leagues until he was in his late 40s.

the large majority of women in the 1950s and 1960s who were typists or secretaries.

the attitude that typing, filing and other clerical positions were "women's work".

all of the examples are true.

The opportunity cost of owning a car is

the price of the car.

filling the tank twice a week.

the cost of getting your car inspected once a year.

the vacation to Hawaii you had to give up in order to make your car payments.

Which statement is true?

On the production possibilities frontier, unemployment is zero percent.

On the production possibilities frontier, 85 percent of the labor force is employed.

To get out of a recession, we must move to some point closer to the production possibilities frontier.

To have economic growth, we must have zero unemployment.

Which statement is true?

On the production possibilities frontier, 85 percent of capital is employed.

If we moved closer to the origin and further away from the production possibilities frontier, unemployment would increase.

To have economic growth, we must push the production possibilities frontier outward.

All of the statements are true.

In order to raise the rate of economic growth the United States needs to

Spend more on consumer goods.

Use older, tried and true technology.

Have its consumers save less.

Have its business firms invest more.

Each of the following statements about capital are correct EXCEPT

Capital is a "man"-made good used to produce other goods and services.

Japan has more capital than any other country in the world.

Office buildings and shopping malls are examples of capital.

Capital is considered a passive resource.

Which statement is true?

The U.S. standard of living is higher than that of India because we have more capital.

It is easier to attain full production than full employment.

The United States often operates outside the production possibility frontier.

All of the statements are true.

We temporarily operated outside the production possibilities frontier for at least two years in which one of the following decades?

The 1930s

The 1940s

The 1970s

The 1980s

Why did the U.S. temporarily operate outside the production possibilities frontier in 1942, 1943, and 1944?

The Civil War

World War I

The Great Depression

World War II

An improvement in technology will cause the

economy to move down the production possibility frontier.

production possibility frontier to shift inward.

production possibility frontier to shift outward.

economy to move closer to its production possibility frontier.

Which one of the following resources is not underemployed?

The use of Manhattan Island in New York City for growing corn.

The use of farmland in the Iowa and Illinois corn belt for buildings to do stock market research.

An automobile factory that is shut down for two months to be retooled for a model change.

Limiting all men to the fields of school teaching and social work.

Which statement is true?

Scarcity is simply a lack of money.

The United States' society has been so affluent in the last 50 years that scarcity is only a minor problem.

The economic problem refers to the problem of poverty.

If scarcity did not exist there would be no need to economize.

Which of the following does not illustrate the concept of opportunity cost?

Between 1990 and 1997, the state of California laid off 10,000 of its university employees to have the money to hire 10,000 employees for its prison system.

By reducing its unemployment rate, the United States dramatically increased its production of both civilian and war goods in the early years of World War II.

A computer whiz at M.I.T. gives up her senior year at the university to take a high-paying position at a new company, Socrates.com.

The Secretary of the Interior must choose between enforcing a law that would save the spotted owl, an endangered species or the loss of 500 logging jobs.

If a nation is currently operating at a point inside its production possibilities curve, it

is fully employing all of its resources.

is operating beyond its possible capacity.

is utilizing its resources efficiently.

none of the choices are true.

2-66

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Japan could shift its production possibilities curve outward (to the right) if

it could buy some islands in the Pacific Ocean, thus increasing its available amount of land.

it could devote more of its output to military goods.

it could devote more of its output to producing consumer goods.

all of the choices are true.

Which of the following events in U.S. history did not create economic growth (shift the production possibilities curve outward)?

The Louisiana Purchase in 1803 that nearly doubled the land mass of the United States.

Inventions of machines such as Cyrus McCormick's mechanical reaper.

The introduction of the moving assembly line in automobile production by Henry Olds.

The dramatic reduction in the U.S. unemployment rate from 1939 to 1941 as we prepared to enter World War II.

Which of the following is an example of capital?

Money

A bulldozer

A CD

A U.S. Savings bond

Assuming that a society always operates on its production possibilities curve, an inward shift of the curve implies that

the country's capacity to produce is fixed.

the country is not using its resources efficiently.

the country's capacity to produce has contracted.

All of the choices are true.

The economic problem refers to

not having enough money.

the attempt "to secure the greatest amount of pleasure with the least possible outlay".

the notion that the wealth of nations depends on that country's ability to produce goods and services.

None of the choices are true.

Tommy spends most of his monthly budget on \$3 video game rentals or \$6 packets of baseball cards. The opportunity cost to Tommy of an extra packet of baseball cards is

one video game rental.

two video game rentals.

the cost of the baseball cards.

he does not incur an opportunity cost.

An inward shift of the production possibilities curve

represents an economic decline.

means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

means that the economy can produce more of both goods.

represents an economic decline AND means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

An inward shift of the production possibilities curve could be caused by all of the following except

a war that destroys the nation's bridges, harbors and other infrastructure.

a plague that wipes out one fifth of the population.

a significant rise in the unemployment rate.

30 years of neglect of the nation's railroad and interstate highway systems.

An increase in the rate of economic growth curve could be caused by all of the following except

a national tax that encourages all employers to provide more training and education for employees which leads to an across-the-board upgrade of the skill level of the nation's workforce.

a movement along the production possibilities curve so that the society produces more consumer goods and less capital goods.

an increase in immigration that increases the country's labor force by 20 percent.

an increase in research and development spending for space technology that improves the quality of the nation's capital stock.

Which of the following statements about the concept of opportunity cost is true?

The opportunity cost of a decision is the cost of all possible alternatives to the good produced.

Many decisions do not involve an opportunity cost.

If you have an economics final and an American history final tomorrow, the opportunity cost of studying five hours for your economics exam is the five hours you cannot study for your history exam.

The opportunity cost of a college education at a school where you have to drive 100 miles per week is the cost and maintenance of owning an automobile to drive to and from school.

The United States was able to produce temporarily outside its production possibilities curve for several years during World War II by doing which of the following?

Recruiting housewives to work in tank and airplane factories.

Convincing workers who qualified for retirement to put off retirement.

Pressing older machinery and equipment into use.

Expansion of the work week.

All of the choices are true

A small Caribbean island-country produces only pineapples and rum. If resources are used efficiently in the economy,

it will not be possible to produce more rum without decreasing the production of pineapples.

it will be possible to produce more pineapples without decreasing the production of rum.

it will be producing on its production possibilities curve.

it will not be possible to produce more rum without decreasing the production of pineapples AND it will be producing on its production possibilities curve.

An increase in the unemployment rate would be shown on a production possibilities curve by

shifting the entire curve outward.

shifting the entire curve inward.

moving from a point on or near the curve to a point closer to the origin, rather than shifting the entire curve.

moving from a point inside the curve to a point on the curve, rather than shifting the entire curve.

Each of the following is an example of capital, except

an office building.

gold.

an assembly line.

a computer system.

The opportunity cost of spending four hours at a movie theater watching a double feature the night before a final exam would be

the cost of the movie ticket.

the cost of the subway fare to get to the theater.

the price of the popcorn and candy bars you snuck into the theater.

a higher grade on the exam.

2-70

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An economy operating its plant and equipment at full capacity implies a capacity utilization rate of

40 percent.

70 percent.

85 percent.

100 percent.

Unemployment means

the same as underemployment.

a recession.

slow economic growth.

that not all resources are being used.

The closer we are to the production possibilities frontier and the farther away we are from the origin,

the more unemployment there is.

the less unemployment there is.

the only way to produce more guns will be to give up some butter production.

the only way to produce more butter will be to give up some gun production.

Suppose you had \$1,000 to spend. You choose to spend the money on new clothes rather than on a new surfboard, your second choice or 1,000 lottery tickets, your third choice.

Your opportunity cost of spending the money on clothes is the \$1,000 spent.

Your opportunity cost of spending the money on clothes is not buying the surfboard.

Your opportunity cost of spending the money on clothes is not buying the surfboard and the lottery tickets.

There is no opportunity cost in this instance.

The law of increasing costs is based on each of the following, except

the law of scarcity.

the law of diminishing returns.

diseconomies of scale.

factor suitability.

The increasing cost in the law of increasing cost is a(n) _____ cost.

average

fixed

opportunity

declining

As we move along a production possibilities curve and acquire larger and larger amounts of one good (e.g., guns), the sacrifices of the alternative good (e.g., butter) become larger and larger.

This is an illustration of

the law of demand.

the law of supply.

decreasing opportunity costs.

increasing opportunity costs.

According to the law of increasing costs, as the United States expends more of its resources on reducing air pollution,

the quantity of other goods that must be given up for further reductions in air pollution will decrease.

the quantity of other goods that must be given up for further reductions in air pollution will increase.

the social cost of additional air pollution will increase.

there will be no change in the marginal cost of reducing air pollution.

2-72

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The law of increasing costs states that

opportunity costs decrease as more of one good is produced.

increasing resource prices are inevitable because of scarcity.

opportunity costs increase as more of one good is produced.

resources can be easily adapted to the production of any good.

According to the law of increasing costs, as a textile company spends more money to eliminate dust particles from the workplace to increase worker safety

the cost of reducing 70 percent of the dust in the factory will be the same as the cost of reducing the first 50 percent of the dust in the factory.

the cost of reducing 70 percent of the dust in the factory will be less than the cost of reducing the first 50 percent of the dust in the factory.

the cost of reducing 70 percent of the dust in the factory will be greater than the cost of reducing the first 50 percent of the dust in the factory.

If the production possibilities frontier were a straight line,

The Law of Increasing Cost would still apply.

The opportunity cost of producing one good would decrease as more of another good is produced.

The opportunity cost of producing one good would increase as more of another good is produced.

The opportunity cost of producing one good would remain the same as more of another good is produced.

The Law of Increasing Cost is based upon which of the following?

If units of a resource are added to a fixed proportion of other resources, eventually marginal output will decline.

Economies of scale eventually outweigh diseconomies of scale.

Resources become more suitable for use in the production process as the output of one good expands.

All of the choices are true.

Which of the following statements does not reflect the concept of factor suitability?

It is one of the three concepts that explain the Law of Increasing Cost.

If the economy is shifting from butter to gun production, the butter makers will give the gun makers their worst workers.

Too many farmers work one field, eventually it will lead to less production.

All farmland is not equally well-suited for producing corn.

Which of the following is(are) the main factor(s) spurring economic growth?

Improving technology.

More and better capital.

More and better labor.

All of these cause economic growth.

Writer Thomas Friedman asserts that "America is the greatest engine of innovation that has ever existed and it can't be duplicated anytime soon, because"

of its extreme freedom of thought.

of its emphasis on independent thinking.

of its steady immigration of new minds.

of all of the factors listed.

Fill in the Blank Questions

During World War II, a nation's opportunity cost of devoting resources to the war effort was

_____.

If the United States' unemployment rate is 5% and the capacity utilization rate is 85-90%, then the economy is at _____.

If the United States' maximum possible output of any one good is produced, given the output of other goods, we have attained _____.

To raise the United States' rate of economic growth, we need more and better _____ as well as more and better _____.

For most of World War II, the United States economy temporarily operated _____ the production possibilities frontier.

One way to attain a faster rate of economic growth would be to shift some resources from the production of _____ goods to the production of _____ goods.

In the American economy, the central figure is the _____.

If the United States is operating at full production, not only are we using our most _____ technology, but we are utilizing our land, labor, capital and entrepreneurial ability at their most _____.

Employment discrimination leads to the _____ of labor.

The value of the next best alternative defines _____.

During the Great Depression, the United States economy operated _____ the production possibilities frontier.

Assuming that full employment of labor is considered 5 percent unemployment, in 1998 and 1999, the United States economy operated _____ the production possibilities frontier.

The study of the efficient allocation of the scarce means of production toward the satisfaction of human wants defines _____.

The Other America, which challenged the notion that we had conquered poverty, was written by _____.

The four economic resources are: _____, _____, _____ and _____.

The wealth of nations is determined by the resources available to a nation and was discussed in 1776 by the famous economist, _____.

Andrew Carnegie, Steven Jobs and Sam Walton were all innovators who are also considered _____.

If the United States' unemployment rate is 10 percent and the capacity utilization rate is 70 percent, the economy is in the midst of a _____.

If the United States' unemployment rate is 25 percent and the capacity utilization rate is 50 percent, the economy would be in the midst of a _____.

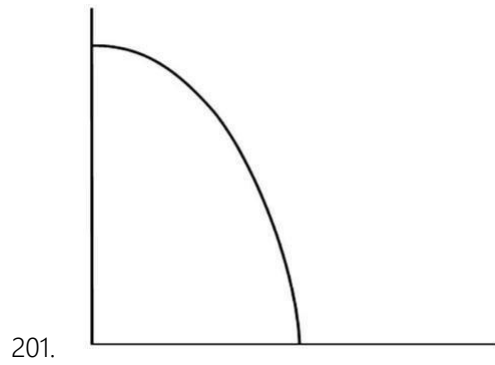
If the United States economy is operating at peak efficiency, it is on its _____.

When business firms get to be too big, they are suffering from _____.

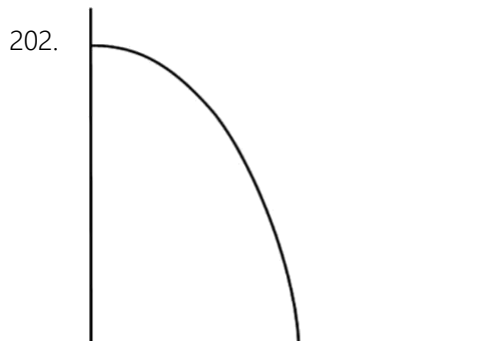
Large firms are able to lower their costs by taking advantage of _____.

200. "As output of one good expands, the opportunity cost of producing additional units of this good increases," is the law of _____.

Short Answer Questions

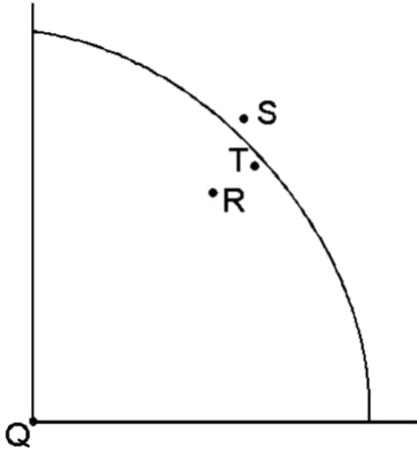


Place point X on the graph to indicate full employment, point Y to indicate economic growth and point Z to indicate a bad depression.

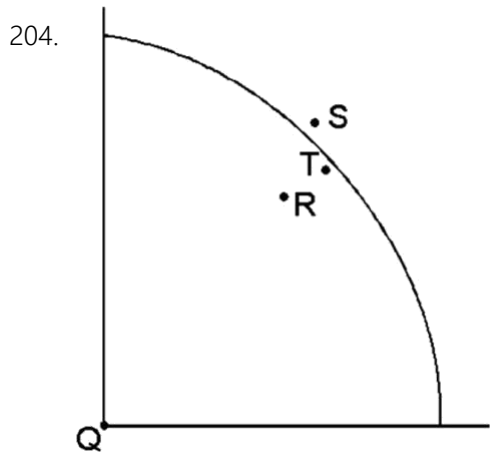


Place point Q on the graph to indicate an unemployment rate of 100 percent, point R to indicate full employment and point S to indicate where the United States economy usually operates.

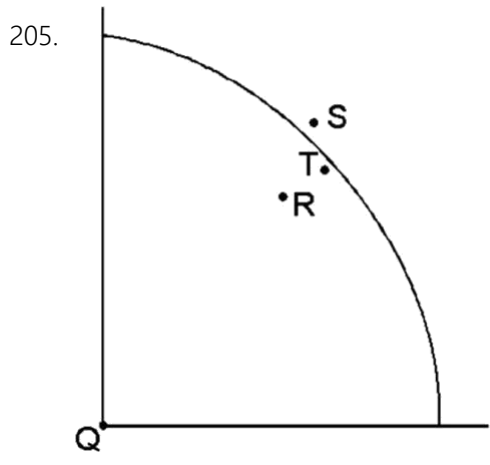
203.



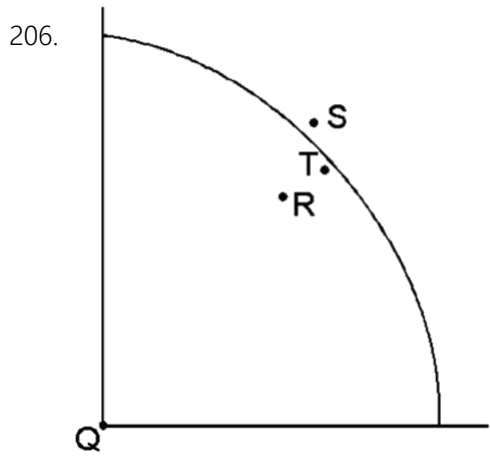
How much is the unemployment rate at point Q?



If the economy is at point R, most likely this economy is experiencing _____.

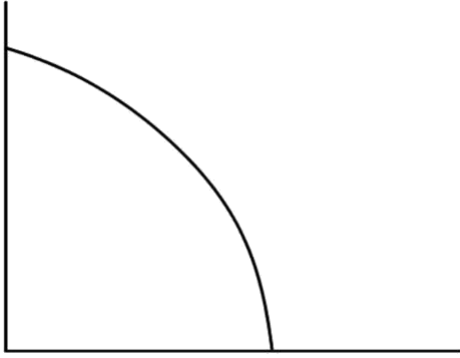


At point S, the economy is operating at approximately _____ unemployment?



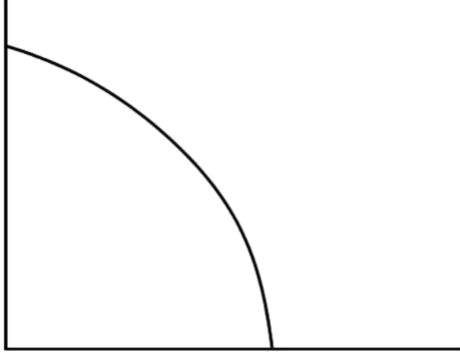
The economy usually operates at point _____?

207.



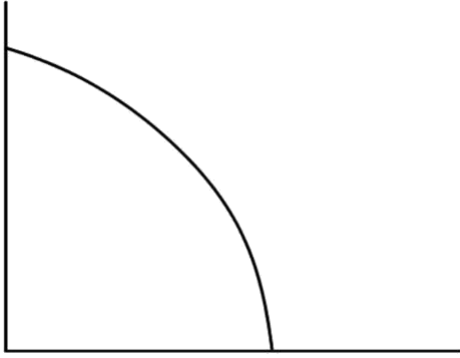
Place point X on the graph to indicate an unemployment rate of 10 percent.

208.

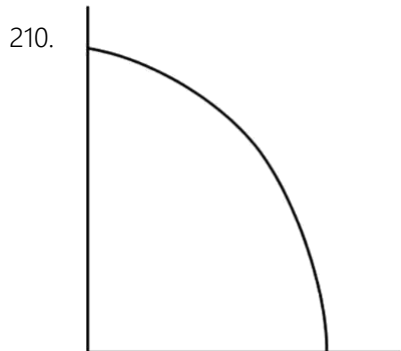


Place point Y on the graph to indicate a deep depression.

209.

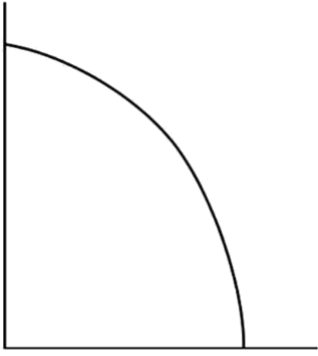


Place point Z on the graph to indicate where the United States economy will most likely operate five years from now if we enjoyed an economic growth rate of 5 percent a year.



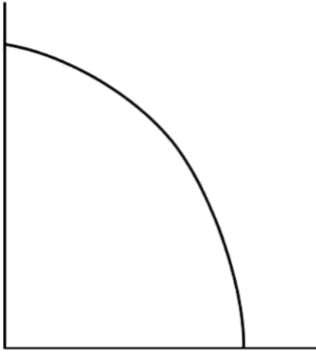
Place point A on the graph to indicate where the United States economy operated in 1938.

211.



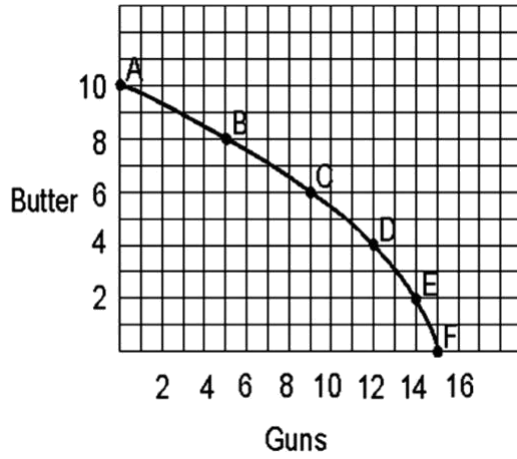
Place point B on the graph to indicate where the United States economy operated in 1943.

212.



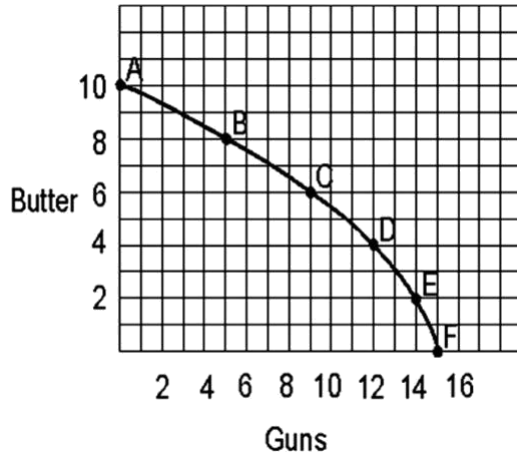
Place point C on the graph to indicate where the United States economy operated in 1997.

213.



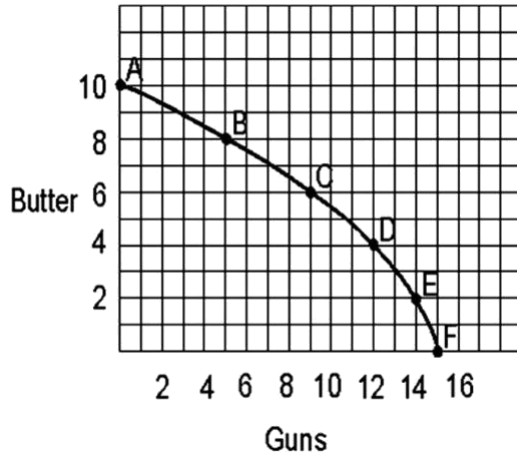
A country producing a combination of 9 units of guns and 6 units of butter would be _____
(outside/on/inside) the production possibilities curve.

214.



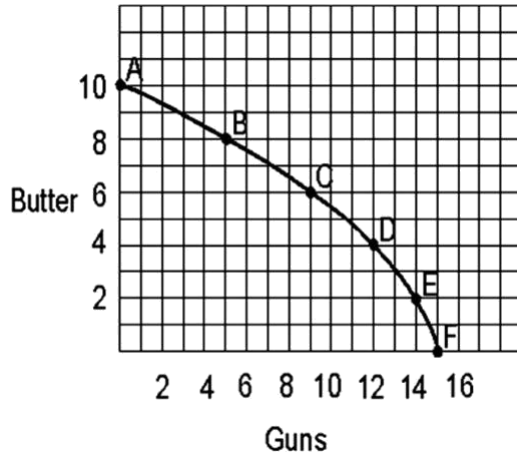
A country temporarily producing a combination of 12 units of guns and 5 units of butter would be _____ (outside/on/inside) the production possibilities curve.

215.



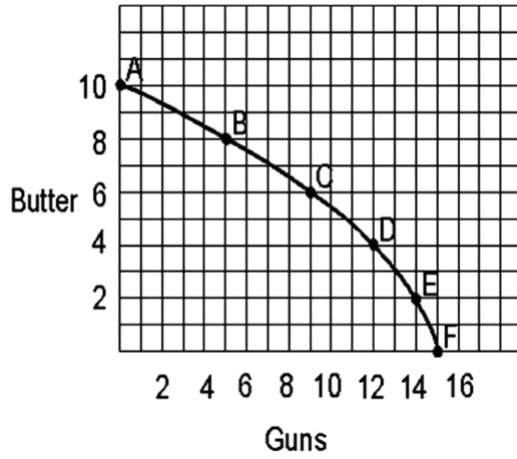
A country producing a combination of 5 units of guns and 6 units of butter would be _____ (outside/on/inside) the production possibilities curve.

216.



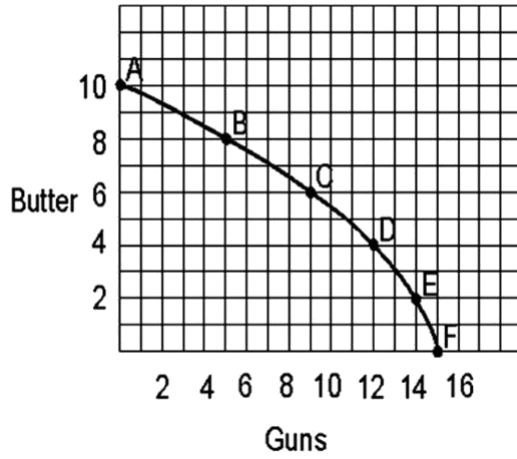
If the country represented in this graph now can produce a maximum of 12 units of guns if it shifts all resources to gun production and could produce a maximum of 9 units of butter if it used all its resources for butter production then it would have experienced _____.

217.



If point C is now 9 units of guns and 8 units of butter, the maximum units of guns possible to produce is 17 and the maximum units of butter possible to produce is 13, the production possibility curve would have shifted _____ (outward/inward).

218.



If the country wanted to produce the maximum total number of units of guns and butter combined, it would produce at point(s) _____.

219. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

In the table above, points A through F represent _____ of resources.

220.Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy is producing at point B, the opportunity cost of gaining 12 units of consumer goods is _____ units of capital goods.

221. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy is producing at point D, the opportunity cost of shifting resources from consumer goods to gain 6 capital goods is _____ consumer goods.

222.Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy produces 36 consumer goods and 12 capital goods the economy would be producing _____ (outside/on/inside) the production possibilities curve.

223. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy produces 27 consumer goods and 12 capital goods, the economy would be producing _____ (outside/on/inside) the production possibilities curve.

224. Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy could produce 42 consumer goods and 12 capital goods, given the current production possibilities curve, the economy would be producing _____
(outside/on/inside) the curve.

225.Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point A to point B?

226.Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point D to point C?

227.Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

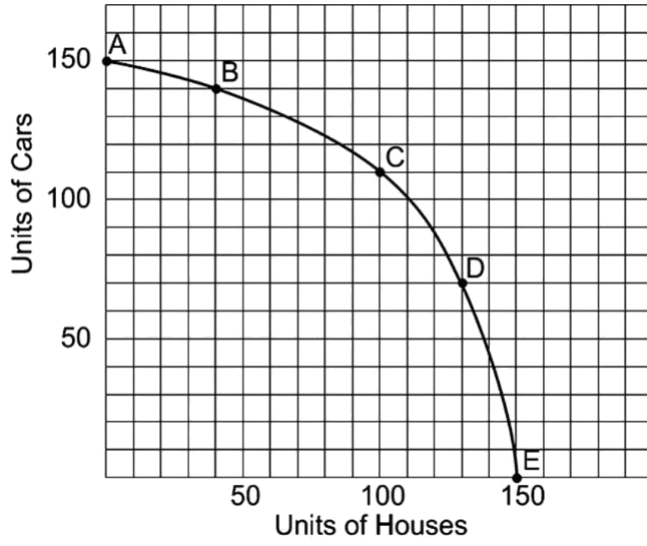
What is the opportunity cost of moving from point B to point A?

228.Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

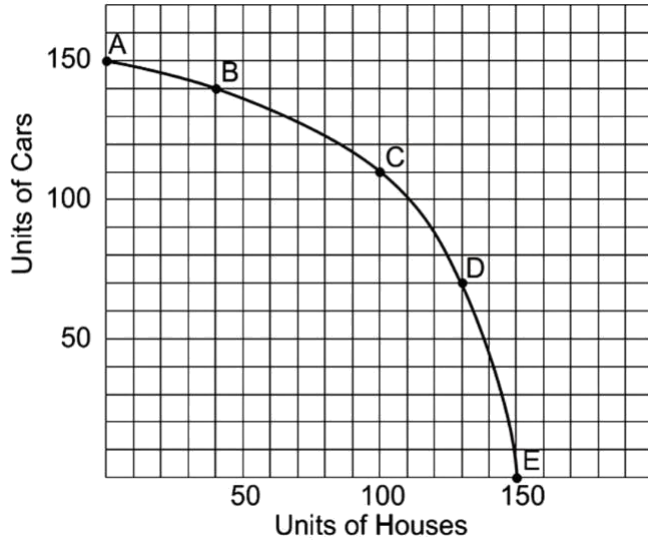
What is the opportunity cost of moving from point B to point C?

229.



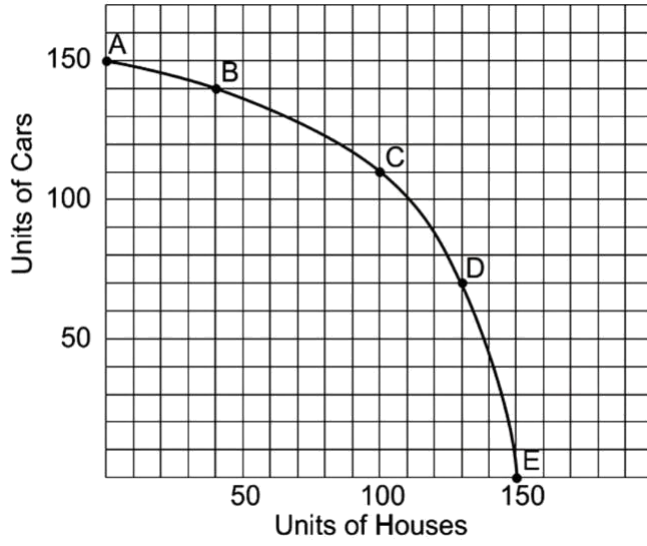
What is the opportunity cost of going from point A to point B?

230.



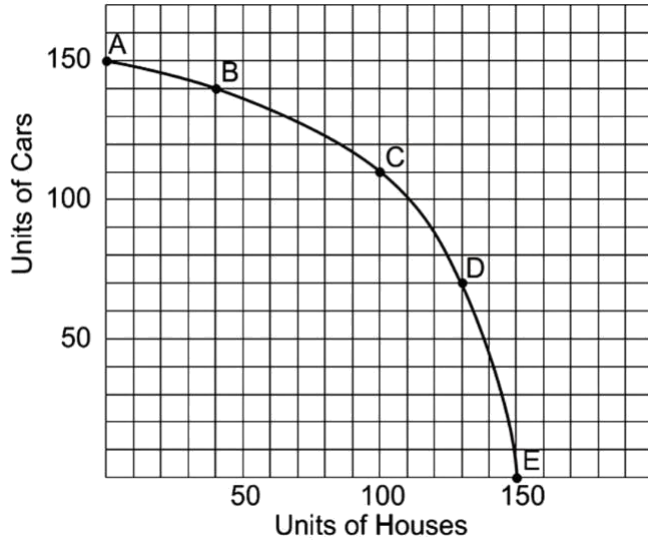
What is the opportunity cost of going from point D to point C?

231.



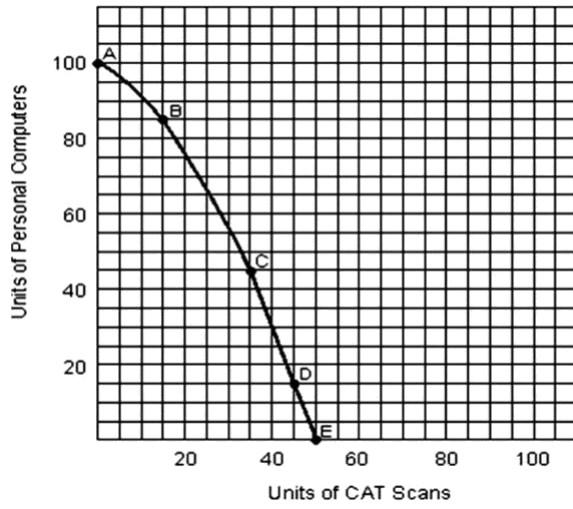
What is the opportunity cost of going from point C to point D?

232.



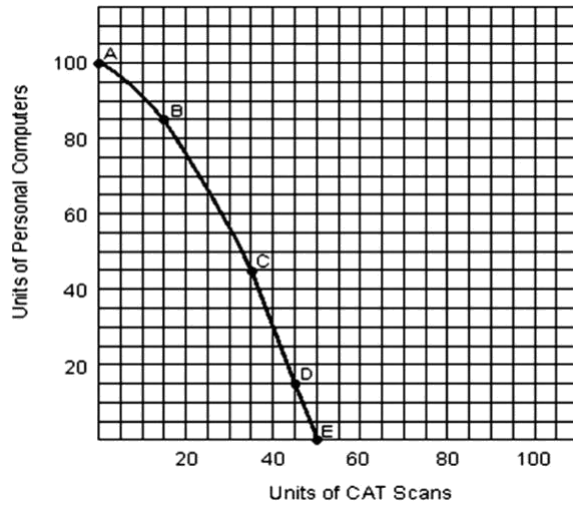
What is the opportunity cost of going from point E to point D?

233.



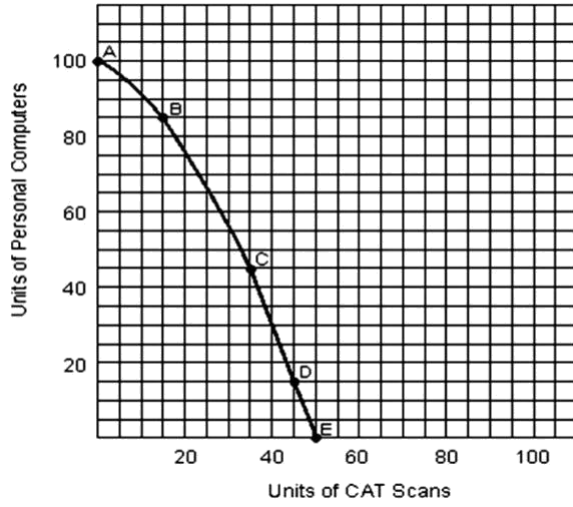
What is the opportunity cost of going from point A to point B?

234.



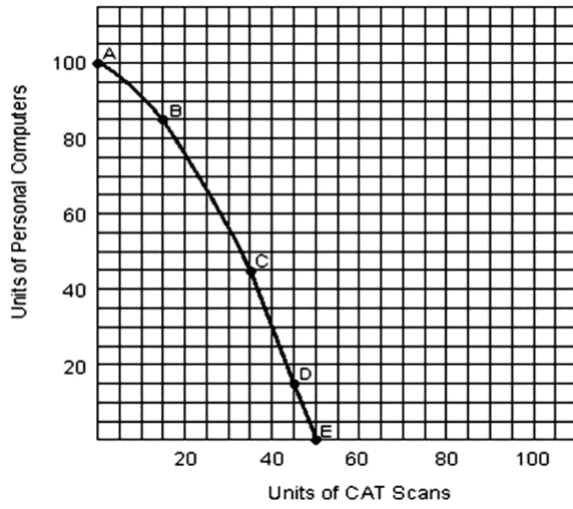
What is the opportunity cost of going from point D to point C?

235.



What is the opportunity cost of going from point C to point D?

236.



What is the opportunity cost of going from point E to point D?

Chapter 02 Resource Utilization Answer Key

Multiple Choice Questions

The United States economy _____ operates on its production possibility curve.

Always

Sometimes

Never

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-08 Define and explain productive efficiency.

Which statement is true?

Entrepreneurial ability is in short supply in the U.S.

Land, labor and capital may be considered passive resources.

The concept of opportunity cost is irrelevant when there is scarcity.

None of these statements are true.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

In the United States' economy

there is no need to economize.

we rarely have to economize.

only the rich have to economize.

nearly everyone has to economize.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01 Define economics.

The term "the affluent society" was coined by

Michael Harrington.

John Kenneth Galbraith.

Karl Marx.

Adam Smith.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Define economics.

Each of the following is an example of an economic resource except

land.

money.

capital.

labor.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

The United States' economy would be operating at full employment with labor unemployment rate of ___ percent and a capacity utilization rate of ____ percent.

5; 95

5; 85

10; 95

10; 85

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Which statement is true?

On the production possibilities frontier there is zero unemployment.

On the production possibilities frontier 95 percent of the labor force is employed.

To get out of a recession, we must produce at some point beyond our production possibilities frontier.

To have economic growth, we must push the production possibilities frontier inward.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

In order to raise the rate of economic growth we would need to

increase the level of capital.

reduce the level of labor.

spend more on military goods.

spend more on consumer goods.

AACSB: Analytic
Blooms: Analyze
Difficulty: 1 Easy

2-114

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Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

The main reason the United States' standard of living is higher than that of India and China is that we have more

land.

labor.

capital.

money.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Which statement is true?

it is easier to attain full employment than full production.

employment discrimination no longer exists in the U.S. labor market.

The United States is usually operating on the production possibilities frontier.

None of these statements are true.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and

underemployment.

The main effect of employment discrimination is

Unemployment.

Underemployment.

Greater efficiency.

Greater production.

AACSB: Reflective Thinking

Blooms: Remember

2-115

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Difficulty: 3 Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

The United States temporarily operated outside the production possibilities frontier in

1933.

1943.

1973.

1982.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Which statement is true?

The economic problem is limited to poverty.

Scarcity is no longer an economic problem in the United States.

If we all had more money there would be less scarcity.

None of these statements are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Which statement is true?

The United States is usually inside our production possibilities curve.

The United States is usually outside our production possibilities curve.

The United States is usually on our production possibilities curve.

None of the statements are true.

AACSB: Reflective Thinking
Blooms: Remember

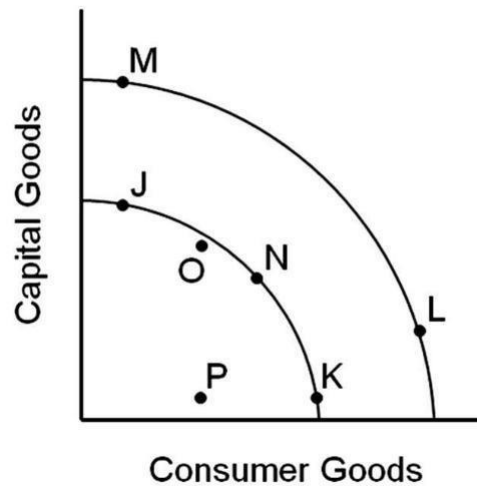
2-116

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Difficulty: 1 Easy

Learning Objective: 02-08 Define and explain productive efficiency.

15.



Which movement between two points represents economic growth?

J to K

K to L

L to M

M to N

AACSB: Analytic

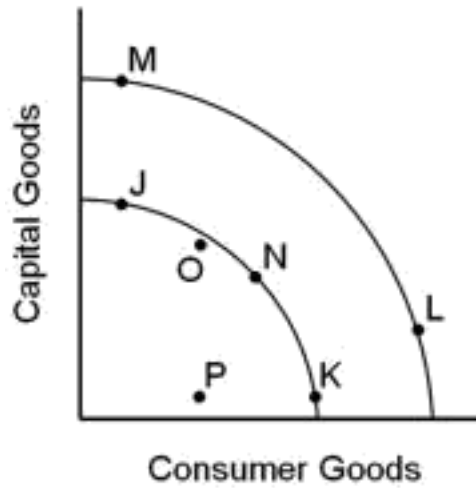
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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16.



Assuming the inner curve is the United States' current production possibilities frontier, the United States' economy usually operates at ____.

Point P

Point O

Point N

Point L

AACSB: Analytic

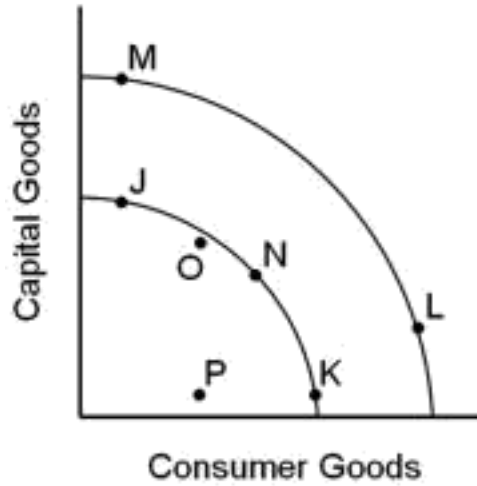
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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17.



Assuming the inner curve is the United States' current production possibilities frontier, points J, N and K represent

- an inefficient use of resources.
- an output that is not possible to produce.
- points of unemployed resources.
- points of fully employed resources.

AACSB: Analytic

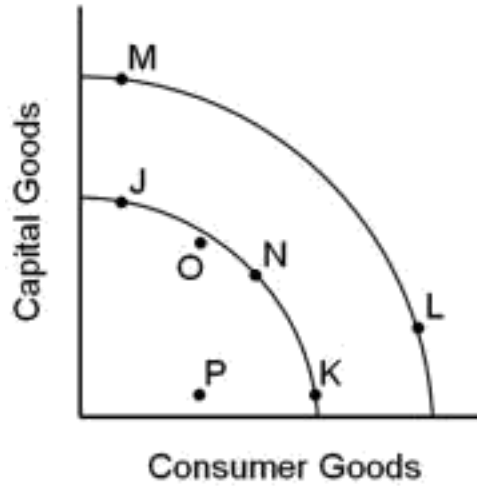
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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18.



Assuming the inner curve is the United States' current production possibilities frontier, which of the following points would eventually lead to the greatest level of economic growth?

Point J

Point N

Point K

Point P

AACSB: Analytic

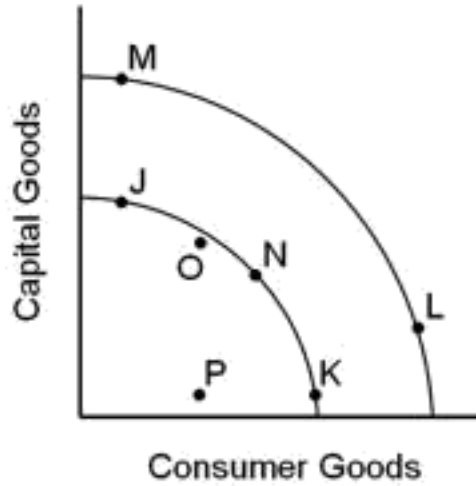
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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19.



A movement from point J to point M would represent

- an increase in consumer goods, but not capital goods.
- an increase in capital goods, but not consumer goods.
- an increase in both capital goods and consumer goods.
- no increase in either capital goods or consumer goods.

AACSB: Analytic

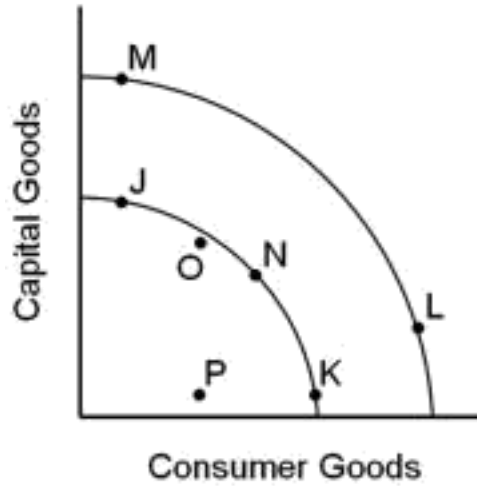
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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20.



A movement from point N to point L would represent

- an increase in both consumer goods and capital goods.
- a decrease in both consumer goods and capital goods.
- an increase in consumer goods, but a decrease in capital goods.
- an increase in capital goods, but a decrease in consumer goods.

AACSB: Analytic

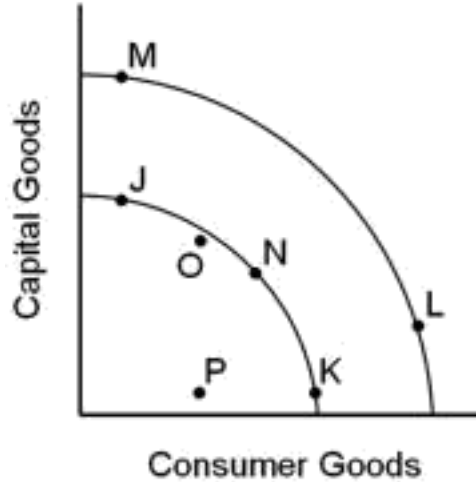
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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21.



The opportunity cost of a movement from point N to J would

- be the lost production of some capital goods.
- be the lost production of some consumer goods.
- be slower economic growth in the future.
- not involve any sacrifice of either capital or consumer goods.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

If a nation is currently operating at a point inside its production possibilities curve, it

- can increase the output of one good without decreasing the output of the other good.
- has fully employed resources.
- has no inefficiently employed resources.
- is operating at full potential.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Which of the following is not demonstrated by a production possibility curve?

- scarcity
- opportunity cost
- necessity for choice due to scarcity
- price

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

People are forced to economize because of

- competition.
- pressure to conform.
- scarcity.
- the absence of money.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

The United States' basic economic problem would be solved if

- everyone were given \$500,000.
- the population stopped growing.
- all sickness and disease were wiped out.
- our wants could be satisfied with available resources.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

If the economy is operating at a 7 percent unemployment rate we are operating

inside the production possibilities curve.

on the production possibilities curve.

outside the production possibilities curve.

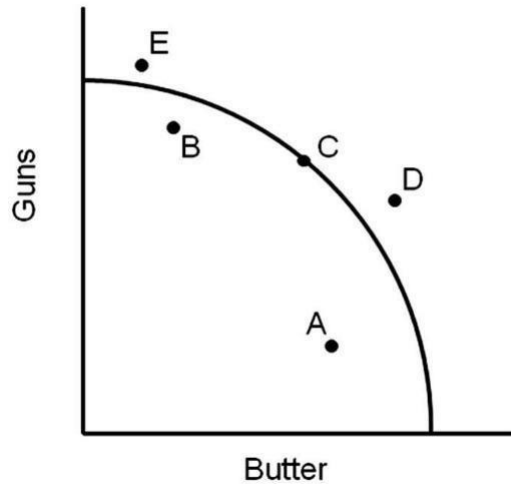
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

27.



In 1939 the U.S. economy was operating at point _____.

A

B

C

D

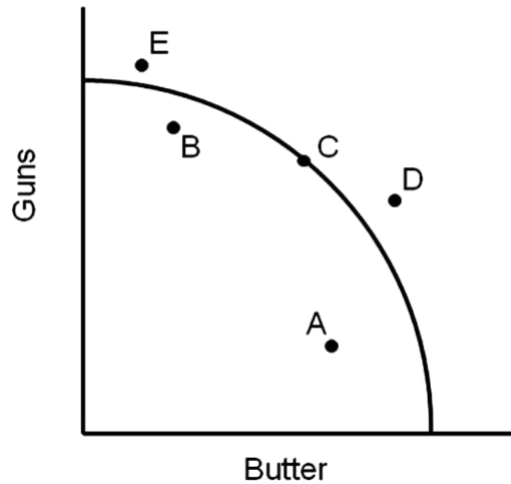
AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

28.



In 1944 the U.S. economy was temporarily operating at point _____.

- A
- B
- C
- D

AACSB: Analytic
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

We can increase the United States' rate of economic growth by

- devoting more output to capital goods.
- devoting more output to improving our technology.
- devoting more output to improving the quality of our labor force.
- all of the choices are true.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

If an assumption is made that a society is operating on its production possibilities curve, an outward shift of the curve implies

economic growth has occurred.

the society is making more efficient use of its available resources.

consumer demand has increased.

the present value of capital resources has increased.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Resources include

land, labor and money.

entrepreneurship and capital.

capital and money.

corporations and partnerships.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

The study of economics

is a very narrow endeavor.

is a way of analyzing decision-making processes caused by scarcity.

focuses on how a business should function.

is concerned with proving that capitalism is better than socialism.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Define economics.

2-127

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Economic growth can be shown by _____ production possibilities curve.

an outward shift of the

an inward shift of the

a movement from one point to another along the

a movement to a point inside the

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Economic growth is difficult for poor countries because

governments must fund capital production and research out of tax revenues.

resources must be taken away from consumer goods to pay for capital goods.

those wealthy enough to invest in domestic industries may choose to invest abroad instead.

All of the choices are true.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

The United States economy is generally operating _____ the production possibilities curve.

inside

outside

on

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

Economic growth occurs when

a large part of a country's population is poor.

a society sacrifices an amount of one good for more of another along its production possibility frontier.

a society acquires additional resources or when its technology advances.

there is unemployment of labor but other resources are used efficiently.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

If you own a building and you decide to use that building to open a restaurant,

there are no sunk costs involved in this decision.

there is no opportunity cost of using this building for a restaurant because you own it.

the only cost relevant to this decision is the price you paid for the building.

there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

Which of the following is an example of opportunity cost?

The income that could have been earned by working full-time instead of going to college.

The decline in the grades of a student athlete that occurs because she decides to spend more time practicing sports than on her academic work.

The value of other things you could have done with the same time and money it cost you to go to the movies.

All of the choices are examples of opportunity cost.

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The opportunity cost for a student of attending college for a year is measured by

the benefit received by the student.

the tuition paid for the year.

the value of the most valued opportunity foregone by attending college.

the total money outlays associated with attending college.

AACSB: Analytic

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The economic problem is essentially one of deciding how to make the best use of

limited resources to satisfy limited wants.

unlimited resources to satisfy limited wants.

limited resources to satisfy unlimited wants.

unlimited resources to satisfy unlimited wants.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Jeff's entertainment budget is divided between \$8 movie tickets and \$40 hockey tickets. The opportunity cost to Jeff of going to an extra hockey game is

four fewer \$10 pizzas.

five movies.

20 DVD rentals (costing \$2 each).

all of the choices are true.

Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

An inward shift in the entire production possibilities frontier

represents economic growth.

means that the economy can produce more of both goods.

takes place if there is an expansion in the labor force.

means that previous levels of production are now unobtainable.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Entrepreneurship is

the financial capital necessary to launch a new business.

the talent to develop new products and processes and to organize production to
make goods and services available.

unskilled labor.

the capital resources used to produce goods and services.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and
underemployment.

Which of the following statements about the concept of opportunity cost is true?

The opportunity cost of a decision only includes monetary outlays.

The opportunity cost of a decision is the next best foregone alternative.

All decisions have zero opportunity cost.

The opportunity cost of a college education is measured by the payments for tuition and books.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The statement "By the time our grandchildren are born, scarcity will not be a problem" is

possible only if technology advances at a great pace.

true, because we will learn to limit our wants in the future. true,

because by that time everyone's basic needs will be met. false,

because people always want more than there is available.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

The opportunity cost of producing one additional truck is

the profit that could have been earned from selling that truck.

the amount of other goods that could not be produced because productive resources were used instead to produce that truck.

the price of the truck.

all of the choices are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

2-132

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The reason that opportunity costs arise is that

people have unlimited wants.

there are no alternative decisions that could be made.

an economy relies on money to facilitate exchange of goods and services.

resources are scarce.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

A small economy produces only pizzas and jeans. If an economy is operating inside its production possibility frontier, which of the following statements is true?

it will be possible to produce more pizzas without decreasing the production of jeans.

the economy will be operating at a point on its production possibilities curve.

the economy will be operating at a point outside its production possibilities curve.

it will not be possible to produce more jeans or pizzas.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

If an economy is operating on its production possibility frontier, which of the following statements is true?

Products are produced using inefficient production technology.

The capacity utilization rate is less than full production.

The economy's labor force is fully employed.

A fall in the price of an input will enable the economy to produce outside the production possibility frontier.

AACSB: Reflective Thinking

Blooms: Understand

2-133

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Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Which of the following is not a factor of production?

Land

Money

Capital

Labor

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

The existence of unemployment can be illustrated on a production possibilities curve by a(n)

point below or inside the surface of the curve.

inward shift of the curve.

movement along the curve.

outward shift of the curve.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Which of the following will shift an economy's production possibilities curve outward?

An improvement in technology

An increase in the unemployment rate

A decrease in land, labor or capital

A decrease in the unemployment rate

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

The production possibilities curve illustrates the basic principle that

an economy's capacity to produce increases in proportion to its population size.

if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.

an economy will automatically seek that level of output at which all of its resources are employed.

the production of more of any one good will in time require smaller and smaller sacrifices of other goods.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

A point along a production possibilities curve shows

that in order to acquire more of one good, none of the alternative good must be given up.

that in order to acquire more of one good, some of the alternative good must be given up.

that any amount of goods could be produced by society if people worked harder.

various combinations of guns and butter that can be produced under conditions of 6 percent unemployment.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

The production possibilities curve tells us that if full employment exists and a nation wishes to permanently increase its production of military goods, it must

also increase its production of nonmilitary goods.

reduce its output of nonmilitary goods.

suffer inflation.

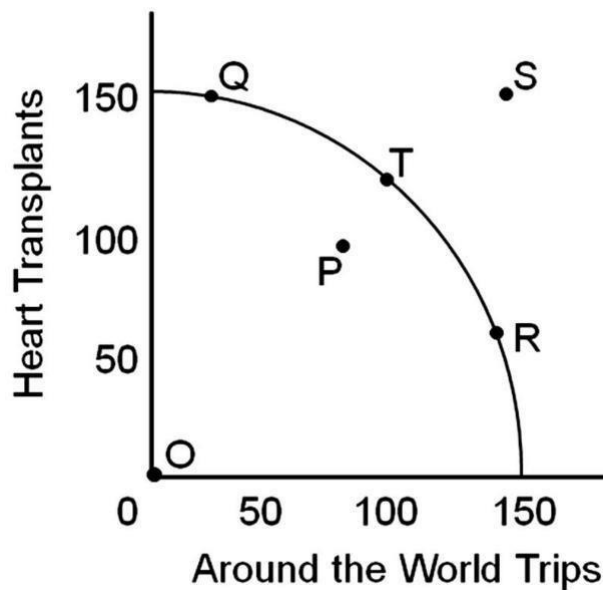
suffer unemployment.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.



56.

If the economy was operating at point O (where the two axes come together), we would have an unemployment rate of ____ percent.

5

50

95

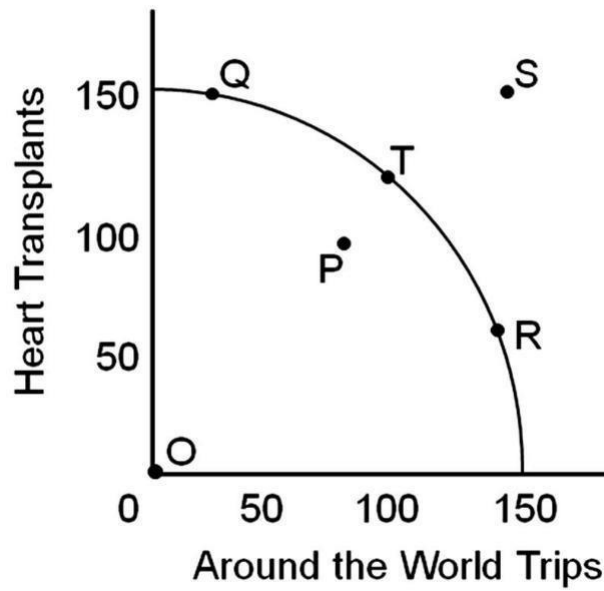
100

Blooms: Apply

2-136

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57.



If we were at point ___ it would be possible to produce more heart transplants and more round-the-world trips.

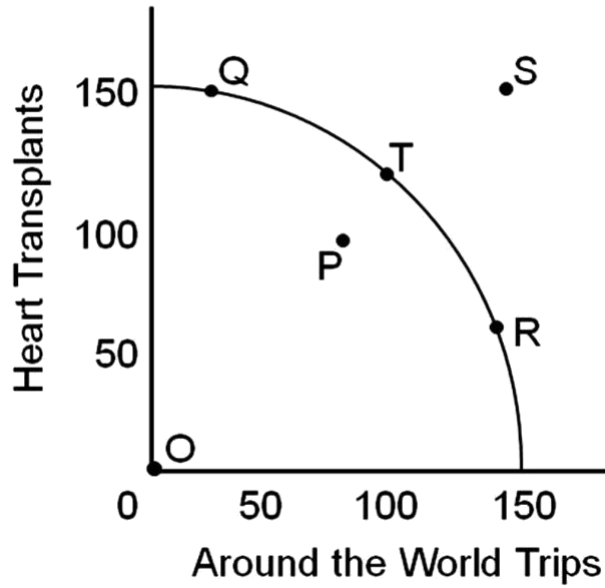
- P
- Q
- R
- S

AACSB: Analytic

Blooms: Apply

Difficulty: 1 Easy

58.



If we are currently at point T, we can get to point S in the long run

- through economic growth over a period of years.
- immediately by using resources more efficiently.
- immediately by reducing the unemployment rate.
- immediately through technological development.

AACSB: Analytic

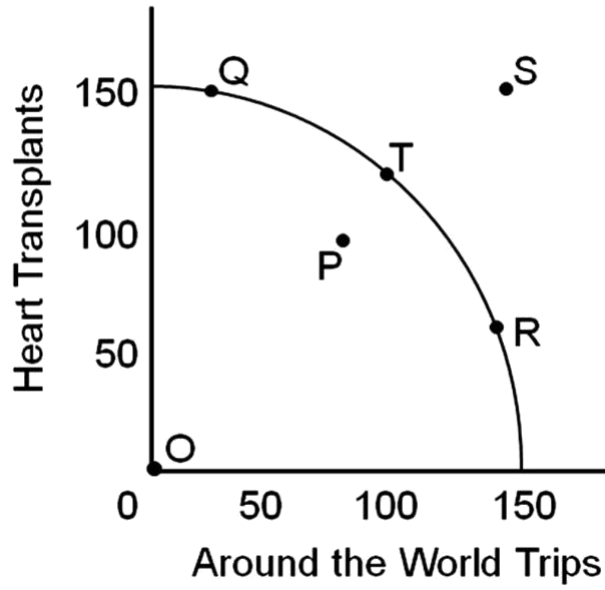
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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59.



We could increase the production of both heart transplants and round-the-world trips if we moved to point T from point

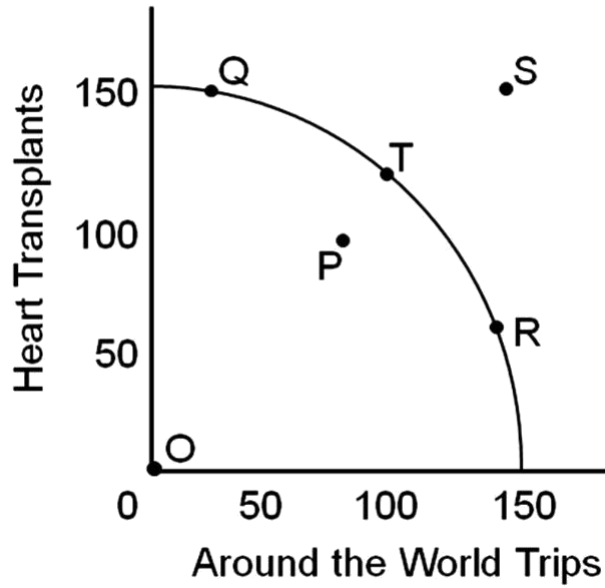
- P.
- Q.
- R.
- S.

AACSB: Analytic
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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60.



If we moved from point T to point R we would be

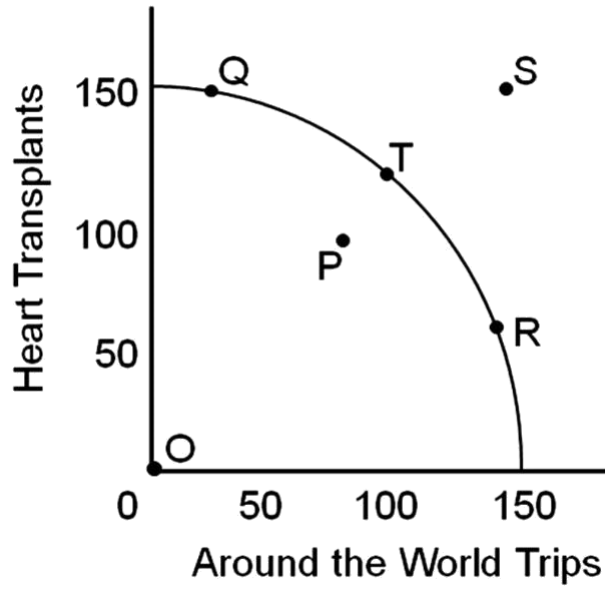
- giving up trips for more transplants.
- giving up transplants for more trips.
- gaining both trips and transplants.
- losing both trips and transplants.

AACSB: Analytic
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

McGraw-Hill Education.

61.



The opportunity cost of moving from point T to point Q would be

- giving up trips around the world.
- giving up heart transplants.
- gaining trips around the world.
- gaining heart transplants.

AACSB: Analytic

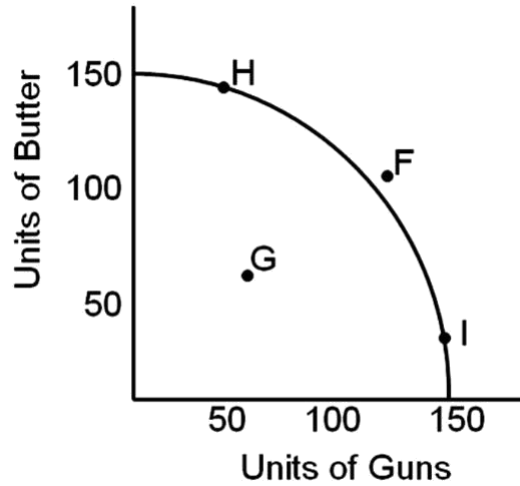
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

McGraw-Hill Education.

62.



If the United States economy were operating on its production possibilities frontier, it would have the best chance of quickly and temporarily reaching point F if

we were at war.

we were in a depression.

we were in a period of inflation.

we invested more in plant and equipment.

AACSB: Analytic

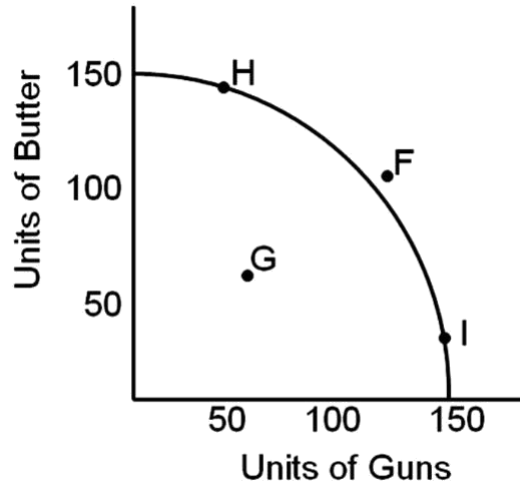
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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63.



Which point best represents the economy in a depression?

Point H

Point F

Point I

Point G

AACSB: Analytic

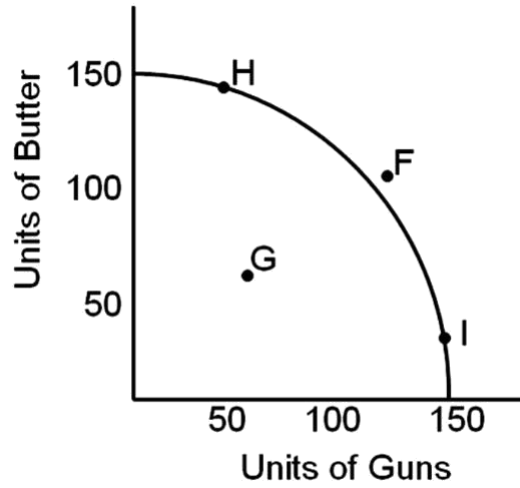
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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64.



During most of the United States' involvement in World War II we temporarily operated at point

F.

G.

H.

I.

AACSB: Analytic

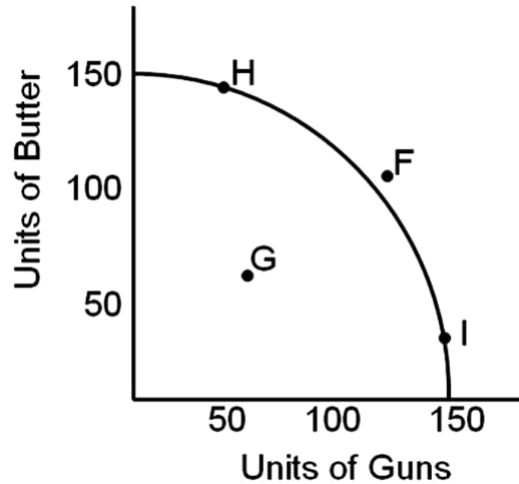
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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65.



Point F

is where the United States' economy operates most of the time.

is unattainable.

represents a severe recession.

can be temporarily attained under unusual circumstances.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Improving the education level of the labor force will

shift the production possibilities curve inward.

not shift the production possibilities curve since the total size of the labor force has not been changed.

shift the production possibilities curve outward.

cause a movement from a point inside the production possibilities curve to a point on the curve.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

2-145

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Unlimited wants need not be a problem if

resources are also unlimited.

resources are flexible in what they can do.

resources are basic energy resources like oil.

resources are human resources such as skilled labor.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Individuals are forced to make choices because

human wants are limited.

the supply of resources is infinite.

wants are unlimited and resources are scarce.

resources are unlimited.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Which of the following would an economist classify as capital?

A public corporation's employees

A share of stock

A computer used by an accountant

A deposit of silver

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

2-146

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Entrepreneurs

receive most of their income through inheritance.

receive interest payments for their services.

take risks in order to earn profits.

are unemployed except during economic boom periods.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Scarcity exists because

of unlimited resources.

human wants are enormous relative to the means available to satisfy them.

production is limited only by technology and human energy.

advertising creates unnatural desires for surplus goods.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

A political candidate promises voters more funding for AIDS research and child care and assures them they will not have to sacrifice any other goods or services to obtain the additional programs.

This may be possible if the economy has unemployed resources.

This is possible only in a fully employed economy.

This is possible if the economy is producing on its production possibilities curve.

None of the choices are possible.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

2-147

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Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Which of the following demonstrates opportunity cost?

With a new strain of wheat, the wheat crop of Canada grows by 20% with no change in the productive resources devoted to wheat farming.

A tax cut increases people's purchases of consumer goods and decreases state expenditures on education.

The ravages of World War II reduced Japan's ability to produce goods.

Flora gets a 10% raise and increases her expenditures on movies.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

In 1943-1945

there was substantial unemployment in the U.S.

there was substantial excess plant and equipment in the U.S.

the U.S. had not yet completed its recovery from the depression.

the U.S. was temporarily operating at a point beyond the production possibilities frontier.

The unemployment rate was at less than 2% from 1943-1945.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Every social system confronts scarcity and therefore must

produce only free goods.

try to produce outside its production possibilities frontiers.

economize.

allocate goods by government edict.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

_____ is attained when the maximum possible output of any one good is produced, given the output of other goods.

Productive efficiency

Economic growth

Opportunity cost

Employment discrimination

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

Which statement is true?

Productive efficiency has never been achieved.

The U.S. economy achieved productive efficiency from mid-1997 through mid-2001.

The U.S. economy achieved productive efficiency from 1980 to 1997.

The U.S. economy generally attains productive efficiency.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-08 Define and explain productive efficiency.

2-149

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In the 1950s

more women were unemployed than underemployed.

more women were underemployed than unemployed.

about the same number of women were unemployed as underemployed.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

In the context of the global economy, the United States' capacity utilization rate
_____ than it was just a few decades ago.

is much more important

is much less important

has the same importance

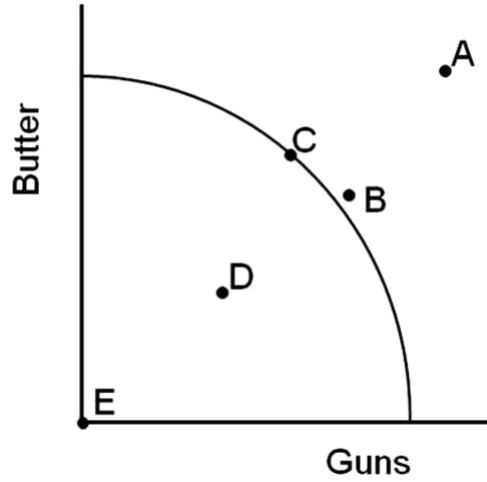
AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

80.



Which point shows where the United States economy was operating during the low point of the Great Depression?

Point A

Point B

Point C

Point D

AACSB: Analytic

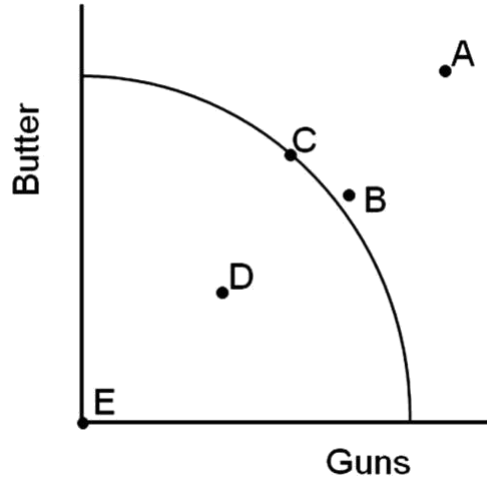
Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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81.



Which point shows where the United States economy was temporarily operating during World War II, when we had reduced the unemployment rate to about two percent?

Point A

Point B

Point C

Point D

AACSB: Analytic

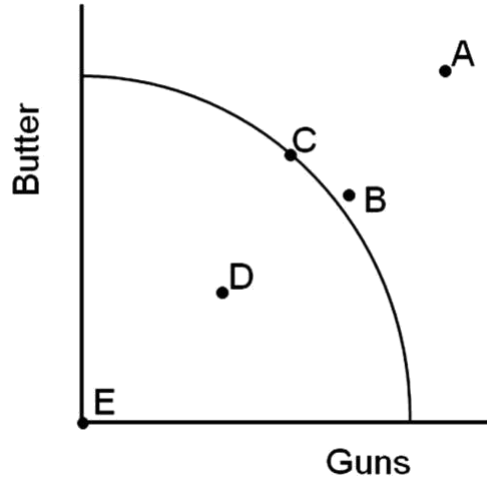
Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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82.



Which point shows where the United States economy would have a 100 percent unemployment rate?

Point B

Point C

Point D

Point E

AACSB: Analytic

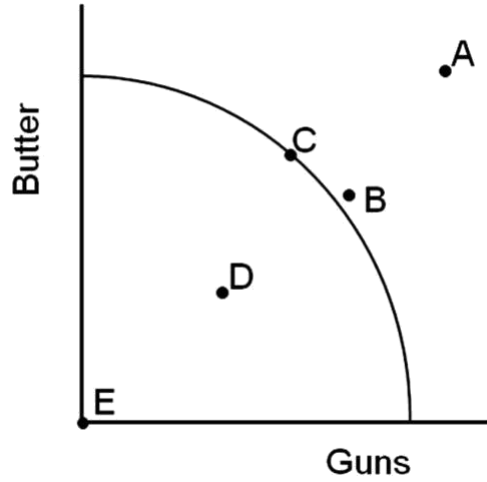
Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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83.



Which set of points would show a movement from depression to full employment?

- a movement from Point C to B
- a movement from Point B to A
- a movement from Point C to E
- a movement from Point D to C

AACSB: Analytic

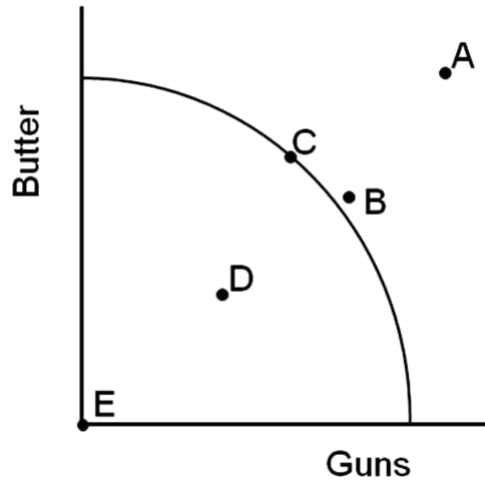
Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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84.



Which point would represent an unattainable combination of resources?

Point A

Point D

Point C

Point E

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

The central fact of economics is

Production.

Equilibrium.

Efficiency.

Scarcity.

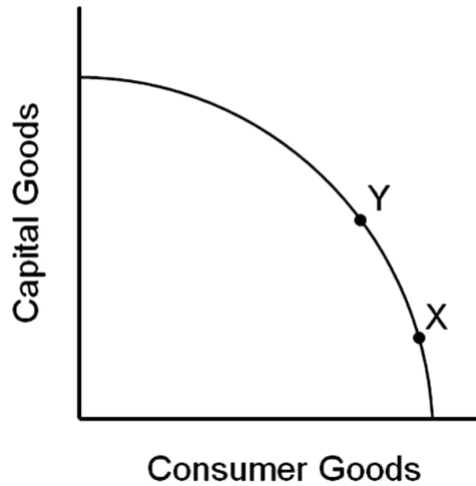
AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

86.



Imagine that a country is at point X of this production possibilities frontier and a country is at point Y.

The country at point X will probably grow faster than the country at point Y.

The country at point Y will probably grow faster than the country at point X.

The two countries will probably grow at about the same speed.

There is no way of predicting which country will grow faster.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

The United States

has sometimes attained productive efficiency.

usually attains productive efficiency.

never attained productive efficiency.

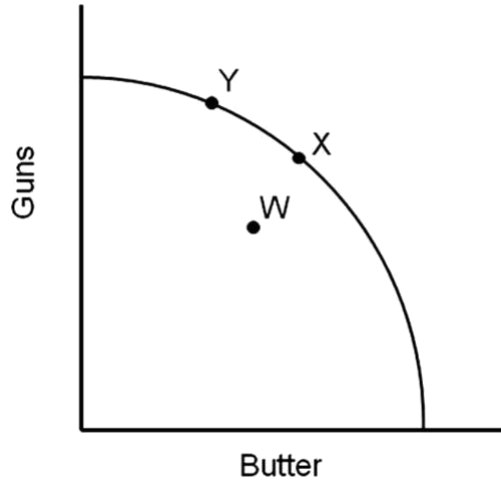
AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-08 Define and explain productive efficiency.

88.



The unemployment rate decreases when we go from

W to X.

X to W.

X to Y.

Y to X.

AACSB: Analytic

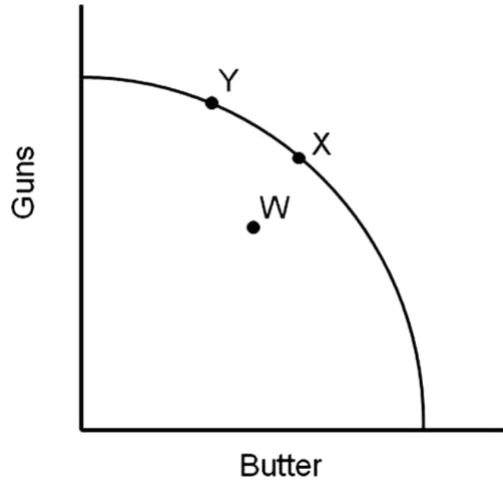
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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89.



If the economy is at full employment and war breaks out, we would move from

- W to X.
- X to W.
- X to Y.
- Y to X.

AACSB: Analytic

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Which of the following will NOT shift an economy's production possibilities curve outward?

- an increase in technology
- an improvement in the literacy rate
- a reduction in the unemployment rate
- an increase in the number of workers available

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Referring to a production possibilities curve and the goods being compared, depict the economic event. The economy moves from full employment to a serious recession (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Referring to a production possibilities curve and the goods being compared, depict the economic event.

The literacy rate increases among workers (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-08 Define and explain productive efficiency.

Referring to a production possibilities curve and the goods being compared, depict the economic event. The bubonic plague (Black Death) in the 1300s killed one-third of Europe's population (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Referring to a production possibilities curve and the goods being compared, depict the economic event. Millions of immigrants came to the United States in the second half of the 19th century to work on the transcontinental railroad (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Referring to a production possibilities curve and the goods being compared, depict the economic event. The AIDS epidemic becomes rampant in America claiming millions of lives (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on or near the curve

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Referring to a production possibilities curve and the goods being compared, depict the economic event. The increase in government spending due to World War II pulls the U.S. economy out of a depression to full employment of resources (guns vs. butter).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Referring to a production possibilities curve and the goods being compared, depict the economic event. Computerization in the 1990s launched thousands of new businesses in the United States (capital goods vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Referring to a production possibilities curve and the goods being compared, depict the economic event. The SARS epidemic spreads rapidly throughout Toronto, Canada claiming millions of lives (capital vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Referring to a production possibilities curve and the goods being compared, depict the economic event. Widespread use of the assembly line revolutionizes U.S. industry in the early 20th century (capital vs. consumer goods).

A movement from a point inside the curve to a point on the curve

A movement from a point on the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Referring to a production possibilities curve and the goods being compared, depict the economic event.

Suppose the United States was at full employment in 2003 just before invading Iraq. Although the war was won quickly, winning the peace took a decade (guns vs. butter).

A movement from a point on or near the curve to a point inside the curve

A shift in the entire curve to the right (outward)

A shift in the entire curve to the left (inward)

A movement along the curve

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

If the unemployment rate is 7 percent, the United States economy is operating

inside the production possibility curve.

on the production possibility curve.

outside the production possibility curve.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

2-163

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Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

If the unemployment rate is 5 percent (full employment), the United States economy is operating

inside the production curve.

on the production curve.

outside the production curve.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Which of the following is not an institutional constraint that limits the United States' production possibilities?

Blue laws that restrict bars and liquor stores from opening on Sunday

Restrictions on child labor

The fact that Americans dislike working at night or on the weekends

Workers who are "in between" jobs

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-08 Define and explain productive efficiency.

"The value of the next best alternative" defines

the Law of Increasing Costs.

the economic problem.

allocative efficiency.

opportunity cost.

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

Adam Smith noted in 1776 that

the wealth of nations comes from the money the nations have accumulated.

the wealth of nations comes from the gold the nations have accumulated.

the wealth of nations comes from the resources that produce the nation's goods
and services.

the problem of scarcity had been licked.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01 Define economics.

John Maynard Keynes noted that

we could print all the money we want and still have scarcity.

"to secure the greatest amount of pleasure with the least possible outlay should be the
aim of all economic effort."

the general notion that scarcity is due to not having enough money is an illusion.

we could print all the money we want and still have scarcity AND the general notion
that scarcity is due to not having enough money is an illusion.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-01 Define economics.

An outward shift in the entire production possibilities frontier

represents economic decline.

means that previous levels of production are now unobtainable.

means that the only way the economy can increase the production of one good is by producing less of an alternative good.

represents economic growth.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Which of the following will shift an economy's production possibilities curve inward?

an improvement in technology

an increase in the unemployment rate

a decrease in land, labor or capital

a decrease in the unemployment rate

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

If you kept your money under your mattress rather than keeping it in a savings account at your local bank,

you would not incur an opportunity cost.

the opportunity cost of such an action would be the forgone interest of not putting the money in a savings account.

the opportunity cost of such an action would be the gas money it took to drive to the bank.

None of the choices are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

2-166

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Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

Which of the following statements about full employment is true?

Liberal economists insist that an unemployment rate of 4 percent constitutes full employment.

Conservative economists feel that an unemployment rate of 6 percent is a realistic portrayal of full employment.

Economists cannot agree on what constitutes full employment, thus 5% represents a reasonable compromise.

All of these choices are true.

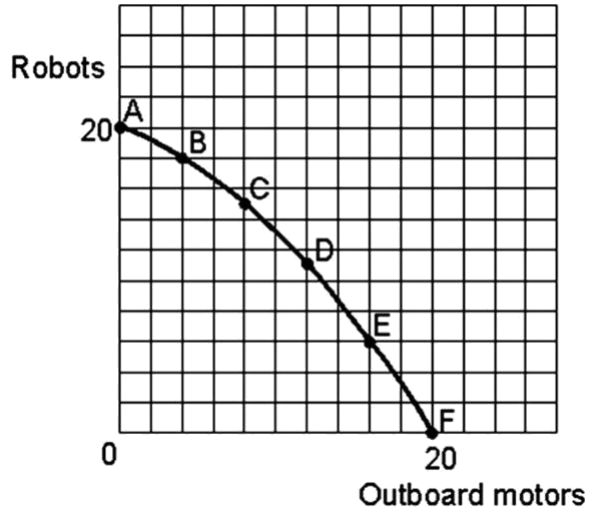
AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

111.



If the economy were producing at point A and moved to point B the opportunity cost in terms of lost production of robots would be

- 1 unit of robots.
- 2 units of robots.
- 3 units of robots.
- 2 units of outboard motors.

AACSB: Analytic

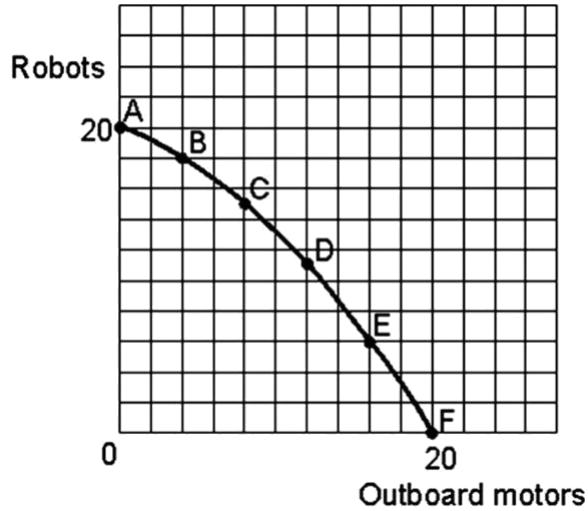
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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112.



If the economy were producing at point E and moved to point B the opportunity cost in terms of lost production of outboard motors would be

- 16 units of outboard motors.
- 14 units of outboard motors.
- 12 units of outboard motors.
- 10 units of outboard motors.

AACSB: Analytic

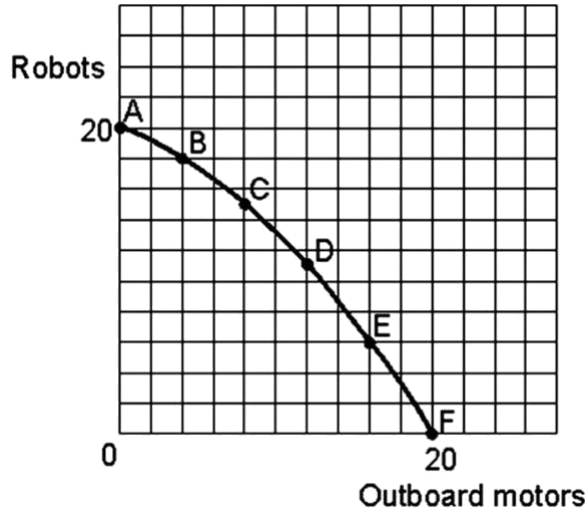
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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113.



If the economy were producing at 12 units of outboard motors and 8 units of robots

the economy would be at a point inside its production possibilities curve.

the economy would be at a point outside its production possibilities curve.

the economy would have unemployed resources.

the economy would be at a point inside its production possibilities curve AND would have unemployed resources.

AACSB: Analytic

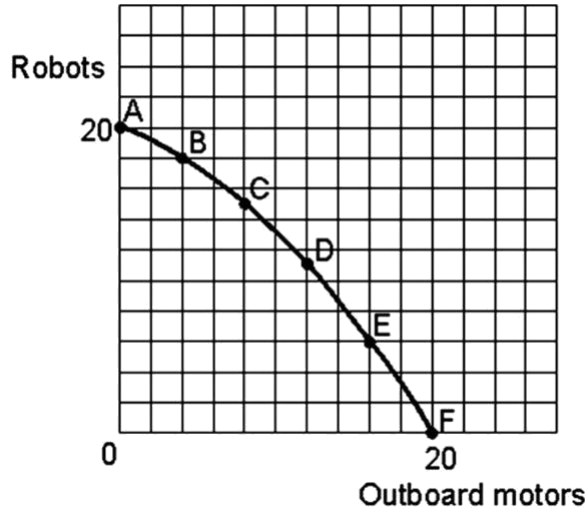
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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114.



If the economy were producing at point D and moved to point C the opportunity cost in terms of lost production of outboard motors would be

- 2 units of outboard motors.
- 4 units of outboard motors.
- 12 units of outboard motors.
- 11 units of robots.

AACSB: Analytic

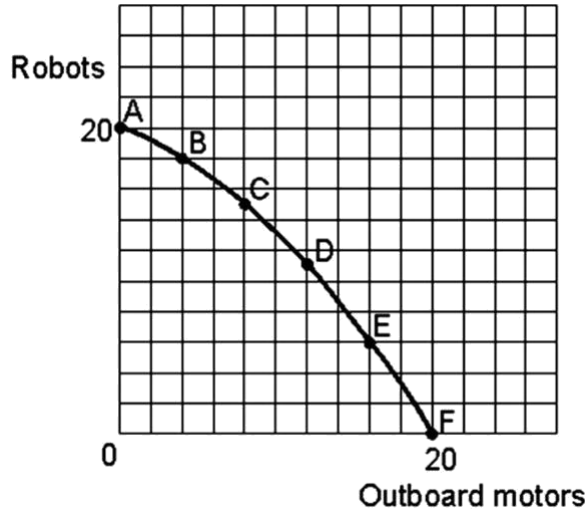
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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115.



The economy could produce at 8 units of outboard motors and 18 units of robots

immediately only under unusual circumstances such as war.

if there is economic growth over a period of years.

under no circumstances.

immediately only under unusual circumstances such as war AND if there is economic growth over a period of years.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy were producing at point C and moves to point B

4 units of capital goods are gained, while the capacity to produce 32 consumer goods are lost.

16 units of capital goods are gained at an opportunity cost of producing 40 consumer goods.

16 units of capital goods are gained at an opportunity cost of producing 72 consumer goods.

4 units of capital goods are gained, while the capacity to produce 72 consumer goods are lost.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy produces 12 capital goods and 40 consumer goods,

it is producing outside its production possibilities curve.

this combination of output will most likely result in economic growth.

the ability to produce more consumer goods can only be realized by sacrificing capital goods.

this economy has some unemployed resources.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the society chooses point B instead of point C,

economic growth is more likely.

economic growth is less likely.

the chances of achieving economic growth will not be affected.

unemployment will result.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

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Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

If the economy were producing at point E and moves to point D,

resources will shift from producing capital goods to producing consumer goods.

resources will shift from producing consumer goods to producing capital goods.

more capital goods can be produced without any sacrifice in consumer goods production.

more consumer goods can be produced without any sacrifice in capital goods production.

AACSB: Analytic

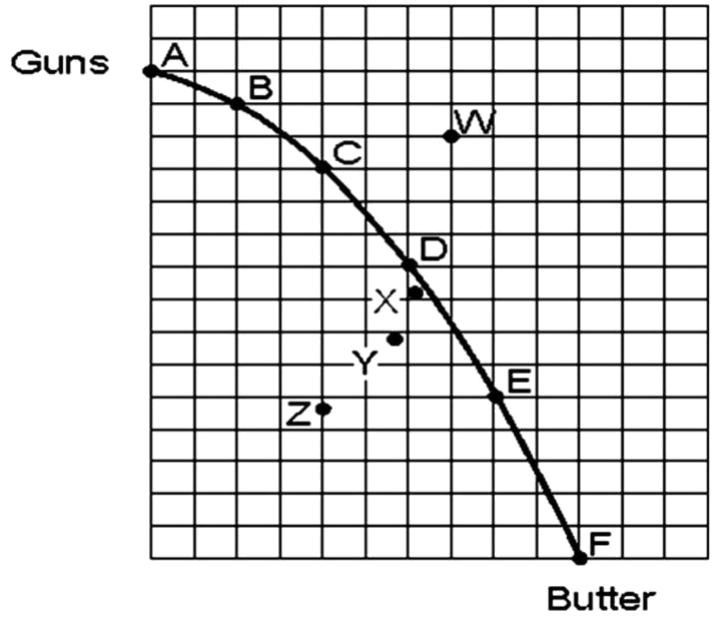
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

McGraw-Hill Education.

120.



If the economy was producing at point X and moved to point Y,

it would have moved from where the economy operates most of the time to a severe recession.

it would have moved from where the economy operates most of the time to a depression.

the unemployment rate would increase.

it would have moved from where the economy operates most of the time to a severe recession AND the unemployment rate would increase.

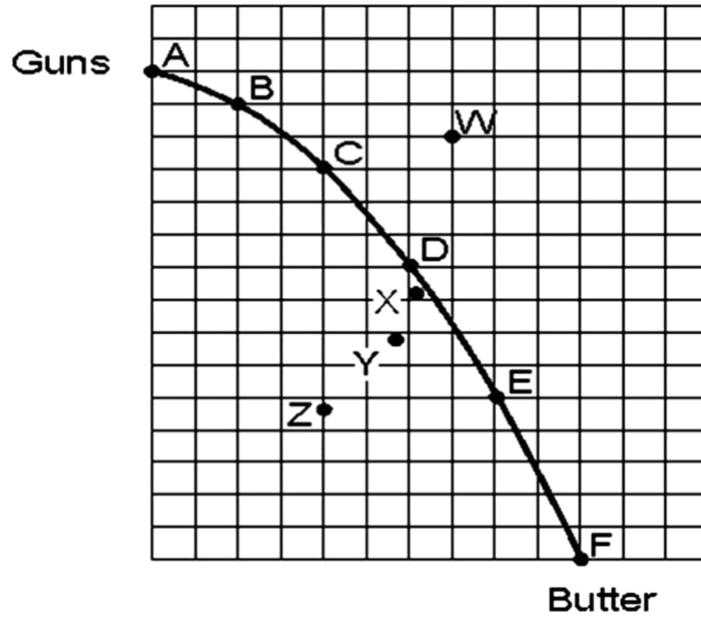
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

121.



The economy could reach point W if it

reduced the unemployment rate.

achieved economic growth.

decreased its quantity of land, labor and capital.

shifted resources from butter production into the manufacturing guns.

AACSB: Analytic

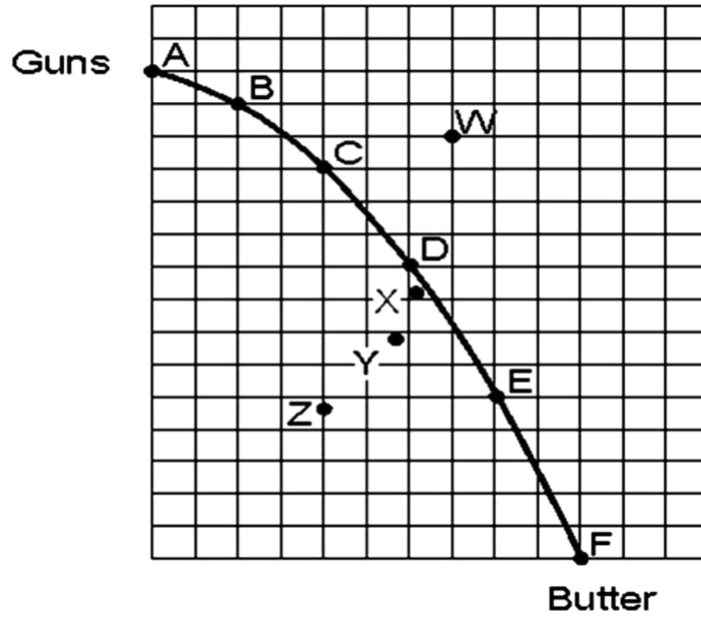
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

McGraw-Hill Education.

122.



If the economy was producing at point D and moved to point C

- the unemployment rate would decrease.
- the production possibilities frontier would shift outward.
- the production possibilities frontier would shift inward.
- None of these choices are true.

AACSB: Analytic

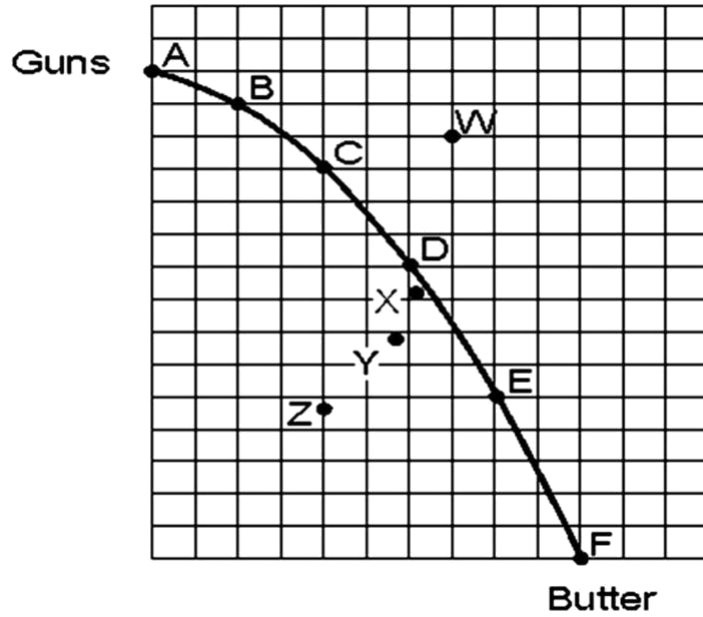
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

McGraw-Hill Education.

123.



If the economy were producing at point F,

it would not be using its resources efficiently.

it would be in a recession.

it could gain units of guns without having to sacrifice units of butter.

it would specialize exclusively in butter production.

AACSB: Analytic

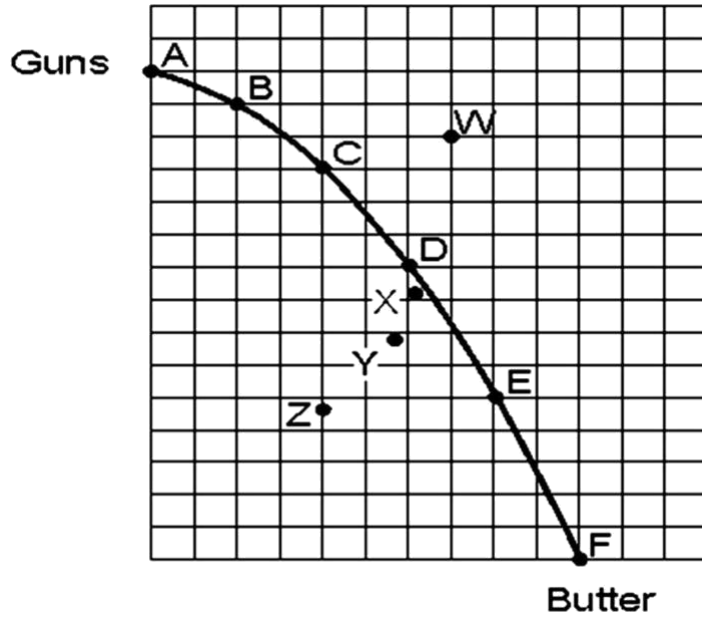
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

McGraw-Hill Education.

124.



If the economy were producing at point E and moved to point D,

the unemployment rate would increase.

the unemployment rate would decrease.

the production possibilities would shift outward.

the economy would shift resources from producing butter to increasing the production of guns.

AACSB: Analytic

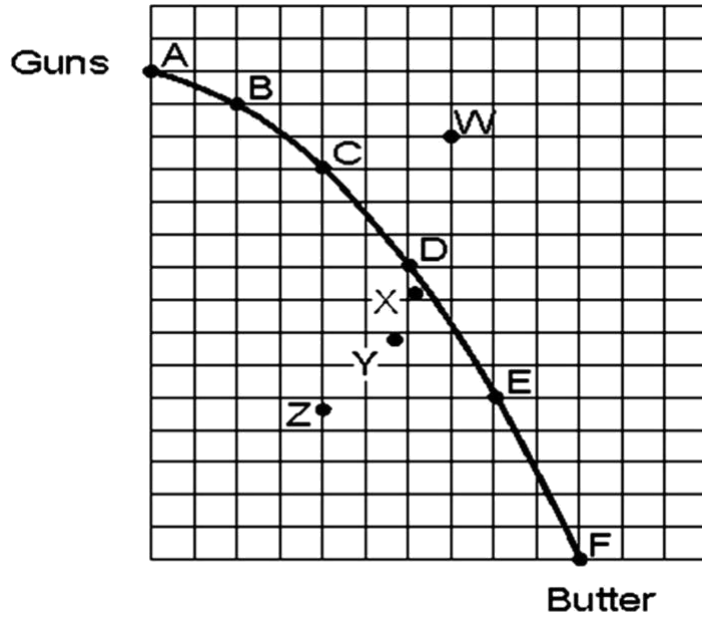
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

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125.



If the economy were at full employment and is producing at point Y,

- the unemployment rate would increase.
- the unemployment rate would decrease.
- the production possibilities frontier would have shifted inward.
- the production possibilities frontier would have shifted outward.

AACSB: Analytic

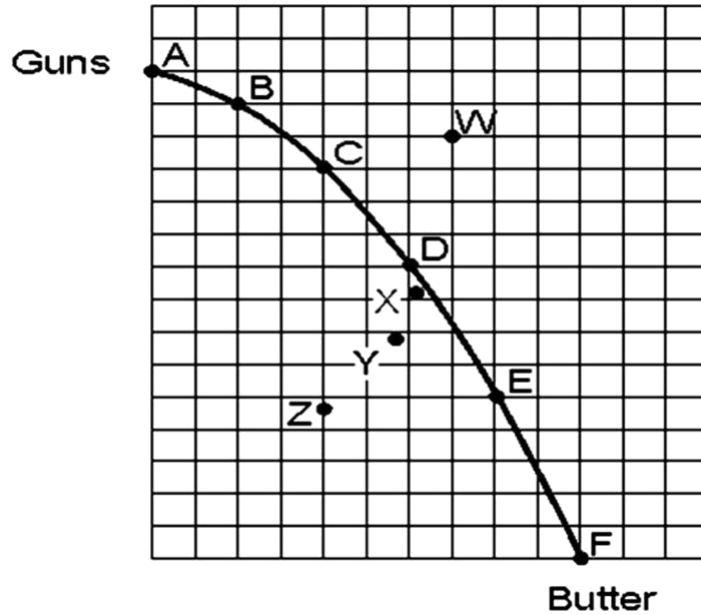
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

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126.



If the economy were producing at point Z and moved to point D,

- it could only produce more butter at the sacrifice of some gun production.
- it could only produce more guns at the sacrifice of some butter production.
- it could produce more guns and more butter at the same time.
- it would be impossible to produce more guns without the sacrifice of some butter production.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Which statement is true?

- Entrepreneurial ability is abundant in the U.S.
- The entrepreneur sets up a business and risks his or her own money.
- Land, labor and capital may be considered passive resources.
- All of the statements are true.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Which statement is true?

Entrepreneurial ability is considered a passive resource.

All entrepreneurs are inventors.

The entrepreneur has been the central figure in the long economic success in the U.S.

The basic payment made to the owners of capital is rent.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Capital refers to

manufactured goods used to produce other goods or services.

the work and time for which employees are paid.

natural resources as well as "man"-made goods.

the person who assembles the needed resources to start a business.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

All of the following statements are true about entrepreneurship except:

The entrepreneur assembles needed resources.

The entrepreneur risks her or his own money.

The entrepreneur reaps the profits or suffers the losses of the enterprise he or she creates.

The term entrepreneur is synonymous with the term inventor.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

2-184

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Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Which statement about entrepreneurship in America is true?

Alexander Graham Bell and Thomas Edison were two of the most famous American inventors who became entrepreneurs.

Often the entrepreneur is an innovator.

The vast majority of entrepreneurs in America either work for themselves or have just one or two employees.

All of the statements are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Opportunity cost can be best defined as

all sunk costs.

the value of the best alternative given up when making a choice.

the explicit cost of an activity.

the cost of making one additional unit.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The entrepreneur

runs his or her own business and risks his or her own money.

does not necessarily run her or his own business nor risks her or his own money.

runs his or her own business, but does not necessarily risk his or her own money.

does not necessarily run her or his own business, but does risk her or his own money.

AACSB: Reflective Thinking

Blooms: Remember

2-185

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Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Examples of employment discrimination would include

the legendary Negro league pitcher Satchel Paige who was not allowed to pitch in the major leagues until he was in his late 40s.

the large majority of women in the 1950s and 1960s who were typists or secretaries.

the attitude that typing, filing and other clerical positions were "women's work".

all of the examples are true.

AACSB: Analytic

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

The opportunity cost of owning a car is

the price of the car.

filling the tank twice a week.

the cost of getting your car inspected once a year.

the vacation to Hawaii you had to give up in order to make your car payments.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

Which statement is true?

On the production possibilities frontier, unemployment is zero percent.

On the production possibilities frontier, 85 percent of the labor force is employed.

To get out of a recession, we must move to some point closer to the production possibilities frontier.

To have economic growth, we must have zero unemployment.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Which statement is true?

On the production possibilities frontier, 85 percent of capital is employed.

If we moved closer to the origin and further away from the production possibilities frontier, unemployment would increase.

To have economic growth, we must push the production possibilities frontier outward.

All of the statements are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

In order to raise the rate of economic growth the United States needs to

Spend more on consumer goods.

Use older, tried and true technology.

Have its consumers save less.

Have its business firms invest more.

AACSB: Reflective Thinking

Blooms: Remember

2-187

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Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Each of the following statements about capital are correct EXCEPT

Capital is a "man"-made good used to produce other goods and services.

Japan has more capital than any other country in the world.

Office buildings and shopping malls are examples of capital.

Capital is considered a passive resource.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Which statement is true?

The U.S. standard of living is higher than that of India because we have more capital.

It is easier to attain full production than full employment.

The United States often operates outside the production possibility frontier.

All of the statements are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

We temporarily operated outside the production possibilities frontier for at least two years in
which one of the following decades?

The 1930s

The 1940s

The 1970s

The 1980s

AACSB: Reflective Thinking

Blooms: Remember

2-188

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Difficulty: 1 Easy

Learning Objective: 02-08 Define and explain productive efficiency.

Why did the U.S. temporarily operate outside the production possibilities frontier in 1942, 1943, and 1944?

The Civil War

World War I

The Great Depression

World War II

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

An improvement in technology will cause the

economy to move down the production possibility frontier.

production possibility frontier to shift inward.

production possibility frontier to shift outward.

economy to move closer to its production possibility frontier.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Which one of the following resources is not underemployed?

The use of Manhattan Island in New York City for growing corn.

The use of farmland in the Iowa and Illinois corn belt for buildings to do stock market research.

An automobile factory that is shut down for two months to be retooled for a model change.

Limiting all men to the fields of school teaching and social work.

AACSB: Analytic

2-189

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Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Which statement is true?

Scarcity is simply a lack of money.

The United States' society has been so affluent in the last 50 years that scarcity is only a minor problem.

The economic problem refers to the problem of poverty.

If scarcity did not exist there would be no need to economize.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Which of the following does not illustrate the concept of opportunity cost?

Between 1990 and 1997, the state of California laid off 10,000 of its university employees to have the money to hire 10,000 employees for its prison system.

By reducing its unemployment rate, the United States dramatically increased its production of both civilian and war goods in the early years of World War II.

A computer whiz at M.I.T. gives up her senior year at the university to take a high-paying position at a new company, Socrates.com.

The Secretary of the Interior must choose between enforcing a law that would save the spotted owl, an endangered species or the loss of 500 logging jobs.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

If a nation is currently operating at a point inside its production possibilities curve, it

- is fully employing all of its resources.
- is operating beyond its possible capacity.
- is utilizing its resources efficiently.
- none of the choices are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

Japan could shift its production possibilities curve outward (to the right) if

- it could buy some islands in the Pacific Ocean, thus increasing its available amount of land.
- it could devote more of its output to military goods.
- it could devote more of its output to producing consumer goods.
- all of the choices are true.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Which of the following events in U.S. history did not create economic growth (shift the production possibilities curve outward)?

- The Louisiana Purchase in 1803 that nearly doubled the land mass of the United States.
- Inventions of machines such as Cyrus McCormick's mechanical reaper.
- The introduction of the moving assembly line in automobile production by Henry Olds.
- The dramatic reduction in the U.S. unemployment rate from 1939 to 1941 as we prepared to enter World War II.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

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Which of the following is an example of capital?

Money

A bulldozer

A CD

A U.S. Savings bond

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

Assuming that a society always operates on its production possibilities curve, an inward shift of the curve implies that

the country's capacity to produce is fixed.

the country is not using its resources efficiently.

the country's capacity to produce has contracted.

All of the choices are true.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

The economic problem refers to

not having enough money.

the attempt "to secure the greatest amount of pleasure with the least possible outlay".

the notion that the wealth of nations depends on that country's ability to produce goods and services.

None of the choices are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

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Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Tommy spends most of his monthly budget on \$3 video game rentals or \$6 packets of baseball cards. The opportunity cost to Tommy of an extra packet of baseball cards is

- one video game rental.
- two video game rentals.
- the cost of the baseball cards.
- he does not incur an opportunity cost.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

An inward shift of the production possibilities curve

- represents an economic decline.
- means that the previous levels of production are now unobtainable except under unusual circumstances such as war.
- means that the economy can produce more of both goods.
- represents an economic decline AND means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

An inward shift of the production possibilities curve could be caused by all of the following except

a war that destroys the nation's bridges, harbors and other infrastructure.

a plague that wipes out one fifth of the population.

a significant rise in the unemployment rate.

30 years of neglect of the nation's railroad and interstate highway systems.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

An increase in the rate of economic growth curve could be caused by all of the following except

a national tax that encourages all employers to provide more training and education for employees which leads to an across-the-board upgrade of the skill level of the nation's workforce.

a movement along the production possibilities curve so that the society produces more consumer goods and less capital goods.

an increase in immigration that increases the country's labor force by 20 percent.

an increase in research and development spending for space technology that improves the quality of the nation's capital stock.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Which of the following statements about the concept of opportunity cost is true?

The opportunity cost of a decision is the cost of all possible alternatives to the good produced.

Many decisions do not involve an opportunity cost.

If you have an economics final and an American history final tomorrow, the opportunity cost of studying five hours for your economics exam is the five hours you cannot study for your history exam.

The opportunity cost of a college education at a school where you have to drive 100 miles per week is the cost and maintenance of owning an automobile to drive to and from school.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The United States was able to produce temporarily outside its production possibilities curve for several years during World War II by doing which of the following?

Recruiting housewives to work in tank and airplane factories.

Convincing workers who qualified for retirement to put off retirement.

Pressing older machinery and equipment into use.

Expansion of the work week.

All of the choices are true

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

A small Caribbean island-country produces only pineapples and rum. If resources are used efficiently in the economy,

it will not be possible to produce more rum without decreasing the production of pineapples.

it will be possible to produce more pineapples without decreasing the production of rum.

it will be producing on its production possibilities curve.

it will not be possible to produce more rum without decreasing the production of pineapples AND it will be producing on its production possibilities curve.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

An increase in the unemployment rate would be shown on a production possibilities curve by

shifting the entire curve outward.

shifting the entire curve inward.

moving from a point on or near the curve to a point closer to the origin, rather than shifting the entire curve.

moving from a point inside the curve to a point on the curve, rather than shifting the entire curve.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Each of the following is an example of capital, except

an office building.

gold.

an assembly line.

a computer system.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

The opportunity cost of spending four hours at a movie theater watching a double feature the night before a final exam would be

the cost of the movie ticket.

the cost of the subway fare to get to the theater.

the price of the popcorn and candy bars you snuck into the theater.

a higher grade on the exam.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

An economy operating its plant and equipment at full capacity implies a capacity utilization rate of

40 percent.

70 percent.

85 percent.

100 percent.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and

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underemployment.

Unemployment means

the same as underemployment.

a recession.

slow economic growth.

that not all resources are being used.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

The closer we are to the production possibilities frontier and the farther away we are from the origin,

the more unemployment there is.

the less unemployment there is.

the only way to produce more guns will be to give up some butter production.

the only way to produce more butter will be to give up some gun production.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Suppose you had \$1,000 to spend. You choose to spend the money on new clothes rather than on a new surfboard, your second choice or 1,000 lottery tickets, your third choice.

Your opportunity cost of spending the money on clothes is the \$1,000 spent.

Your opportunity cost of spending the money on clothes is not buying the surfboard.

Your opportunity cost of spending the money on clothes is not buying the surfboard and the lottery tickets.

There is no opportunity cost in this instance.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

The law of increasing costs is based on each of the following, except

the law of scarcity.

the law of diminishing returns.

diseconomies of scale.

factor suitability.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

The increasing cost in the law of increasing cost is a(n) _____ cost.

average

fixed

opportunity

declining

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

2-199

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As we move along a production possibilities curve and acquire larger and larger amounts of one good (e.g., guns), the sacrifices of the alternative good (e.g., butter) become larger and larger. This is an illustration of

the law of demand.

the law of supply.

decreasing opportunity costs.

increasing opportunity costs.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

According to the law of increasing costs, as the United States expends more of its resources on reducing air pollution,

the quantity of other goods that must be given up for further reductions in air pollution will decrease.

the quantity of other goods that must be given up for further reductions in air pollution will increase.

the social cost of additional air pollution will increase.

there will be no change in the marginal cost of reducing air pollution.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

The law of increasing costs states that

- opportunity costs decrease as more of one good is produced.
- increasing resource prices are inevitable because of scarcity.
- opportunity costs increase as more of one good is produced.
- resources can be easily adapted to the production of any good.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

According to the law of increasing costs, as a textile company spends more money to eliminate dust particles from the workplace to increase worker safety

- the cost of reducing 70 percent of the dust in the factory will be the same as the cost of reducing the first 50 percent of the dust in the factory.
- the cost of reducing 70 percent of the dust in the factory will be less than the cost of reducing the first 50 percent of the dust in the factory.
- the cost of reducing 70 percent of the dust in the factory will be greater than the cost of reducing the first 50 percent of the dust in the factory.

AACSB: Analytic

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

2-201

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If the production possibilities frontier were a straight line,

The Law of Increasing Cost would still apply.

The opportunity cost of producing one good would decrease as more of another good is produced.

The opportunity cost of producing one good would increase as more of another good is produced.

The opportunity cost of producing one good would remain the same as more of another good is produced.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

The Law of Increasing Cost is based upon which of the following?

If units of a resource are added to a fixed proportion of other resources, eventually marginal output will decline.

Economies of scale eventually outweigh diseconomies of scale.

Resources become more suitable for use in the production process as the output of one good expands.

All of the choices are true.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Which of the following statements does not reflect the concept of factor suitability?

It is one of the three concepts that explain the Law of Increasing Cost.

If the economy is shifting from butter to gun production, the butter makers will give the gun makers their worst workers.

Too many farmers work one field, eventually it will lead to less production.

All farmland is not equally well-suited for producing corn.

AACSB: Analytic

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Which of the following is(are) the main factor(s) spurring economic growth?

Improving technology.

More and better capital.

More and better labor.

All of these cause economic growth.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

Writer Thomas Friedman asserts that "America is the greatest engine of innovation that has ever existed and it can't be duplicated anytime soon, because"

of its extreme freedom of thought.

of its emphasis on independent thinking.

of its steady immigration of new minds.

of all of the factors listed.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Define economics.

2-203

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Fill in the Blank Questions

During World War II, a nation's opportunity cost of devoting resources to the war effort was

_____.

producing fewer civilian goods

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

If the United States' unemployment rate is 5% and the capacity utilization rate is 85-90%, then the

economy is at _____.

full employment

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and

underemployment.

If the United States' maximum possible output of any one good is produced, given the output of other goods, we have attained _____.

productive efficiency

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

To raise the United States' rate of economic growth, we need more and better _____ as well as more and better _____.

capital; labor

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

For most of World War II, the United States economy temporarily operated _____ the production possibilities frontier.

outside (or, beyond)

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

One way to attain a faster rate of economic growth would be to shift some resources from the production of _____ goods to the production of _____ goods.

consumer; capital

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-09 Identify and explain the factors that enable an economy to grow.

In the American economy, the central figure is the _____.

entrepreneur

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

If the United States is operating at full production, not only are we using our most _____ technology, but we are utilizing our land, labor, capital and entrepreneurial ability at their most _____ . up-to-

date; productive jobs

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Employment discrimination leads to the _____ of labor.

underemployment

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

The value of the next best alternative defines _____.

opportunity cost

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

During the Great Depression, the United States economy operated _____ the production possibilities frontier.

inside

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-08 Define and explain productive efficiency.

2-206

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Assuming that full employment of labor is considered 5 percent unemployment, in 1998 and 1999, the United States economy operated _____ the production possibilities frontier.

outside or beyond

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

The study of the efficient allocation of the scarce means of production toward the satisfaction of human wants defines _____.

economics

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Define economics.

The Other America, which challenged the notion that we had conquered poverty, was written by

_____.

Michael Harrington

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 02-01 Define economics.

The four economic resources are: _____, _____, _____ and _____ land;

labor; capital; entrepreneurship

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

2-207

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The wealth of nations is determined by the resources available to a nation and was discussed in 1776 by the famous economist, _____.

Adam Smith

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.

Andrew Carnegie, Steven Jobs and Sam Walton were all innovators who are also considered

_____.

entrepreneurs

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.

If the United States' unemployment rate is 10 percent and the capacity utilization rate is 70 percent, the economy is in the midst of a _____.

recession

AACSB: Analytic

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

If the United States' unemployment rate is 25 percent and the capacity utilization rate is 50 percent, the economy would be in the midst of a _____.

depression

AACSB: Analytic

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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If the United States economy is operating at peak efficiency, it is on its

_____ . production

possibility frontier (curve)

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

When business firms get to be too big, they are suffering from _____ .

diseconomies of scale

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

Large firms are able to lower their costs by taking advantage of _____ .

economies of scale

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

"As output of one good expands, the opportunity cost of producing additional units of this good increases," is the law of _____ .

increasing costs

AACSB: Reflective Thinking

Blooms: Remember

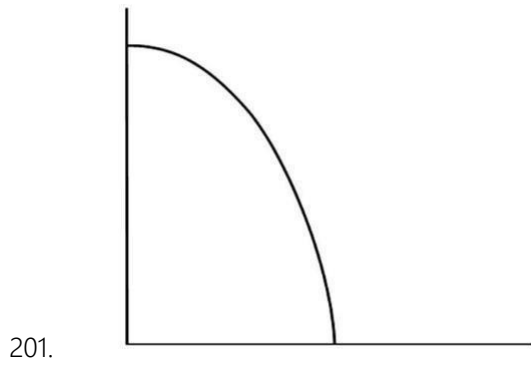
Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

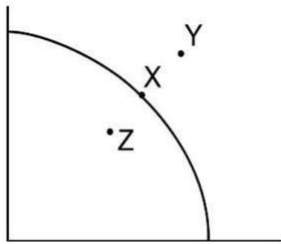
2-209

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Short Answer Questions



Place point X on the graph to indicate full employment, point Y to indicate economic growth and point Z to indicate a bad depression.



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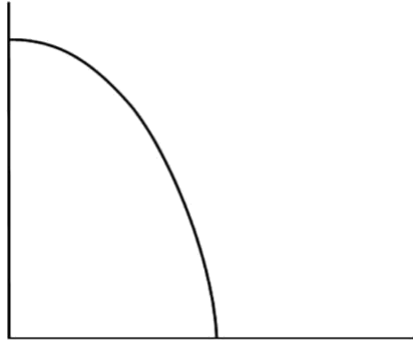
Blooms: Apply

Difficulty: 2 Medium

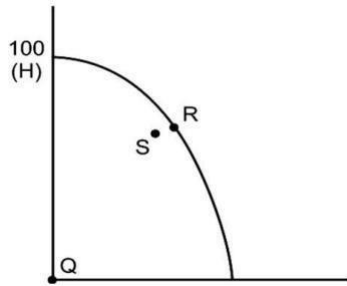
Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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202.



Place point Q on the graph to indicate an unemployment rate of 100 percent, point R to indicate full employment and point S to indicate where the United States economy usually operates.



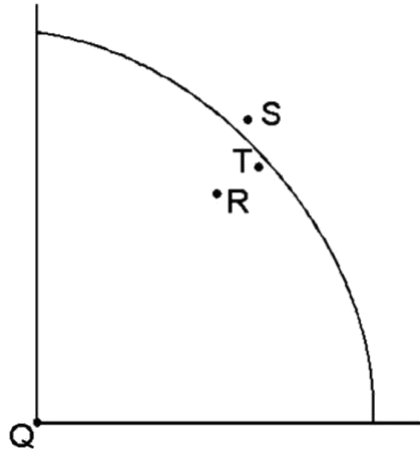
AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

203.



How much is the unemployment rate at point Q?

100%

AACSB: Analytic

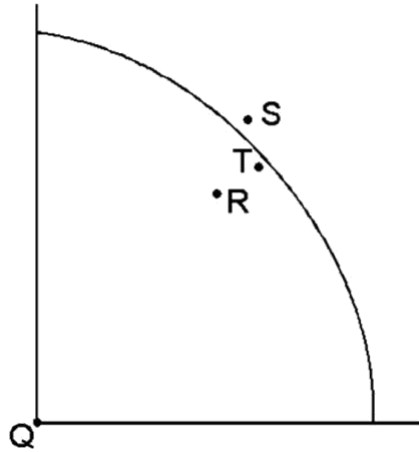
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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204.



If the economy is at point R, most likely this economy is experiencing _____.

a recession

AACSB: Analytic

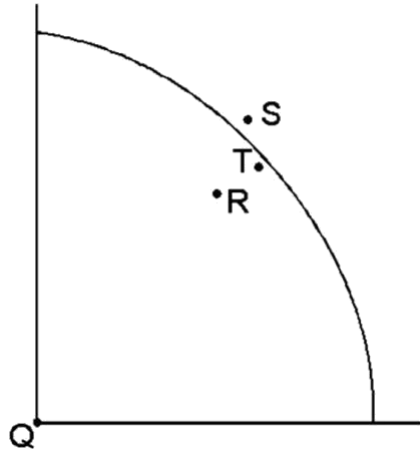
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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205.



At point S, the economy is operating at approximately _____ unemployment?

2-4%

AACSB: Analytic

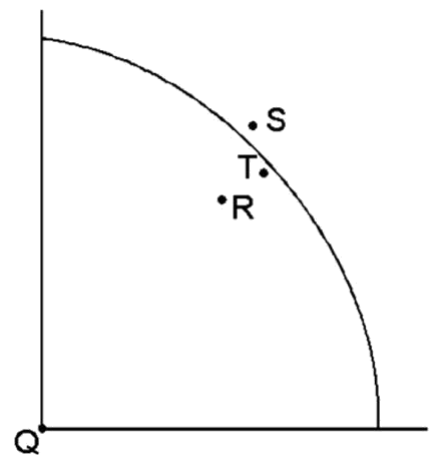
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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206.



The economy usually operates at point _____?

T

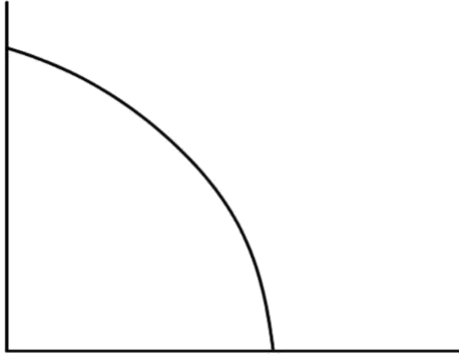
AACSB: Analytic
Blooms: Apply

Difficulty: 2 Medium

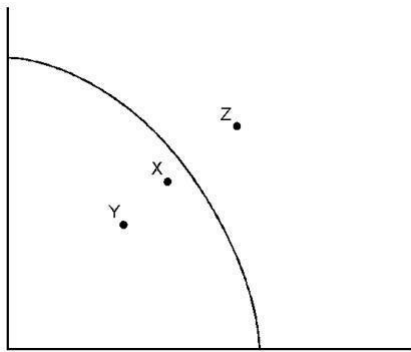
Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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207.



Place point X on the graph to indicate an unemployment rate of 10 percent.



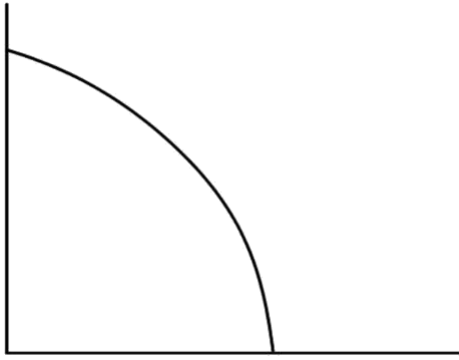
AACSB: Analytic

Blooms: Apply

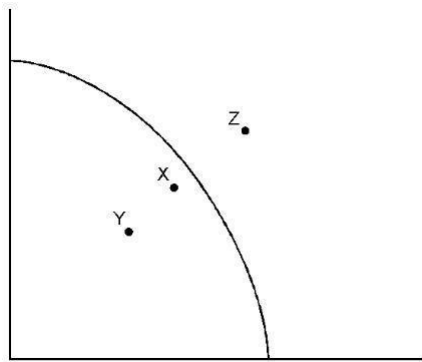
Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

208.



Place point Y on the graph to indicate a deep depression.

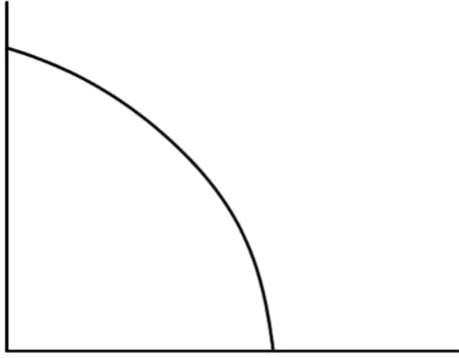


AACSB: Analytic
Blooms: Apply

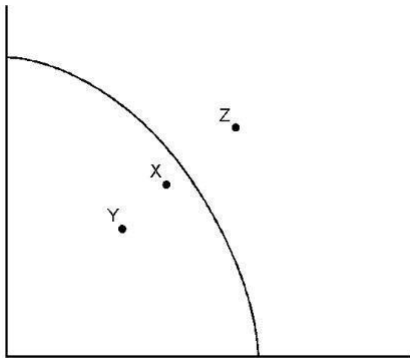
Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

209.



Place point Z on the graph to indicate where the United States economy will most likely operate five years from now if we enjoyed an economic growth rate of 5 percent a year.



AACSB: Analytic

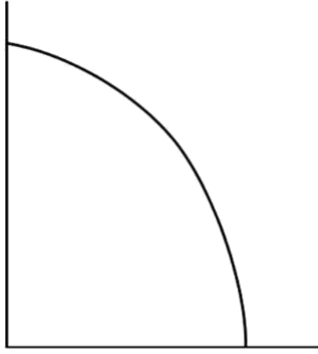
Blooms: Apply

Difficulty: 2 Medium

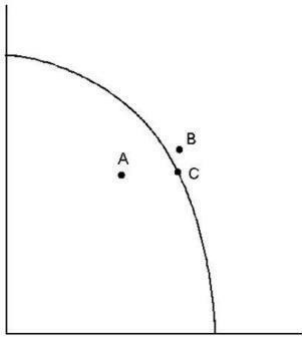
Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

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210.



Place point A on the graph to indicate where the United States economy operated in 1938.



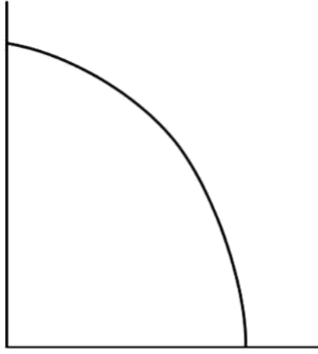
AACSB: Reflective Thinking

Blooms: Apply

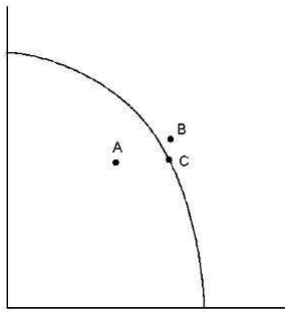
Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

211.



Place point B on the graph to indicate where the United States economy operated in 1943.



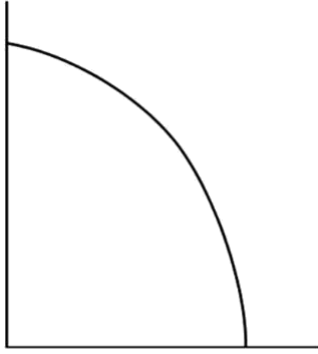
AACSB: Reflective Thinking

Blooms: Apply

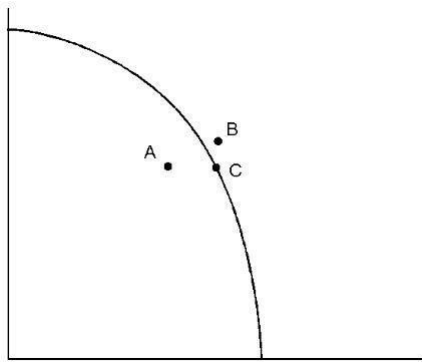
Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

212.



Place point C on the graph to indicate where the United States economy operated in 1997.



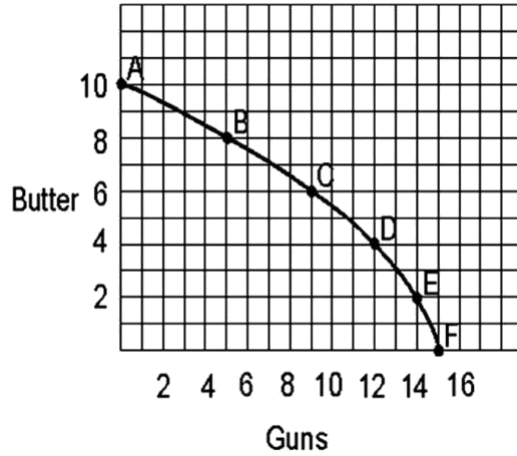
AACSB: Reflective Thinking

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-08 Define and explain productive efficiency.

213.



A country producing a combination of 9 units of guns and 6 units of butter would be _____ (outside/on/inside) the production possibilities curve.

on

AACSB: Analytic

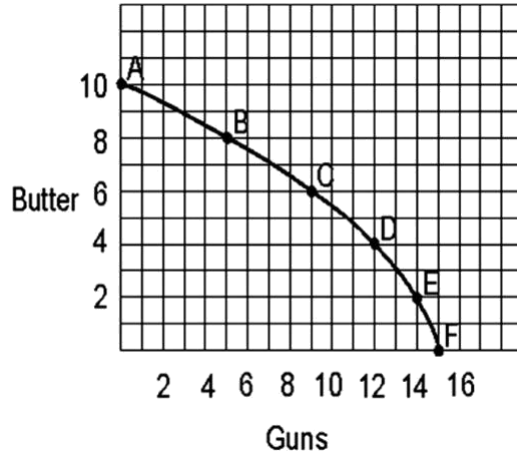
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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214.



A country temporarily producing a combination of 12 units of guns and 5 units of butter would be _____ (outside/on/inside) the production possibilities curve.

outside

AACSB: Analytic

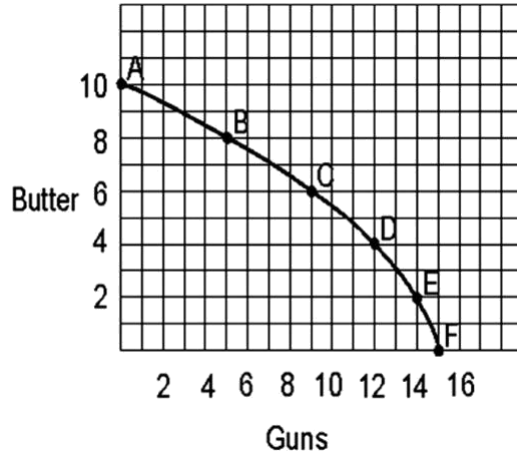
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

McGraw-Hill Education.

215.



A country producing a combination of 5 units of guns and 6 units of butter would be _____ (outside/on/inside) the production possibilities curve.

inside

AACSB: Analytic

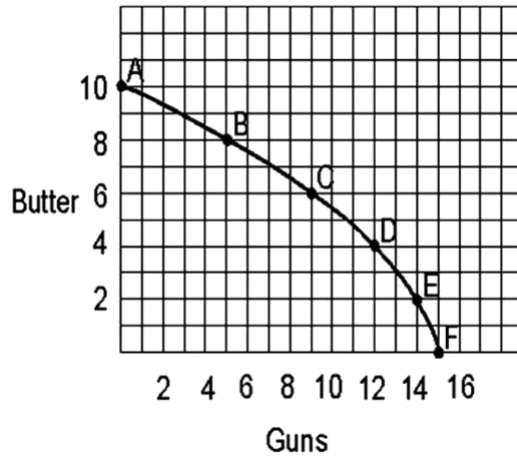
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

McGraw-Hill Education.

216.



If the country represented in this graph now can produce a maximum of 12 units of guns if it shifts all resources to gun production and could produce a maximum of 9 units of butter if it used all its resources for butter production then it would have experienced _____.

economic decline (or inward shift in the production possibilities curve)

AACSB: Analytic

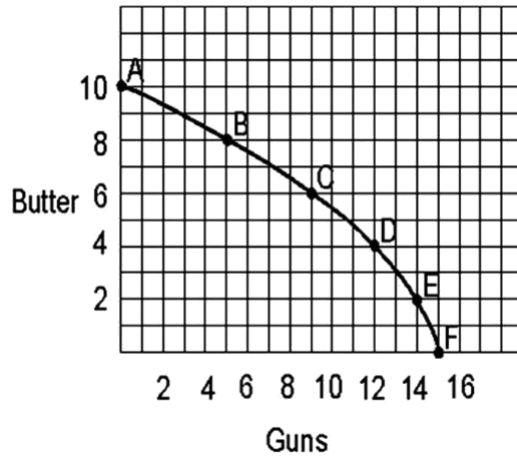
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

McGraw-Hill Education.

217.



If point C is now 9 units of guns and 8 units of butter, the maximum units of guns possible to produce is 17 and the maximum units of butter possible to produce is 13, the production possibility curve would have shifted _____ (outward/inward).

outward

AACSB: Analytic

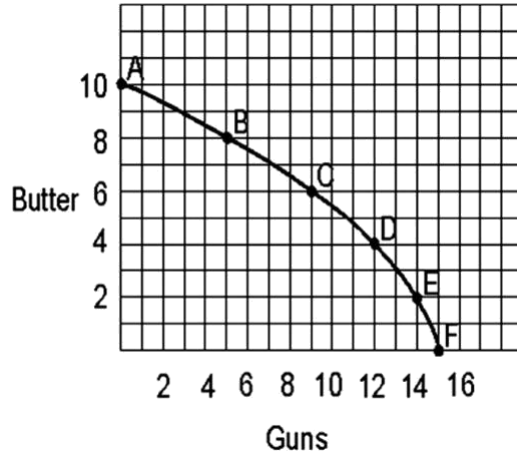
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

McGraw-Hill Education.

218.



If the country wanted to produce the maximum total number of units of guns and butter combined, it would produce at point(s) _____.

D and E

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

McGraw-Hill Education.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

In the table above, points A through F represent _____ of resources.

full employment

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy is producing at point B, the opportunity cost of gaining 12 units of consumer goods is _____ units of capital goods.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy is producing at point D, the opportunity cost of shifting resources from consumer goods to gain 6 capital goods is _____ consumer goods.

9

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

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Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy produces 36 consumer goods and 12 capital goods the economy would be producing _____ (outside/on/inside) the production possibilities curve.

on

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy produces 27 consumer goods and 12 capital goods, the economy would be producing _____ (outside/on/inside) the production possibilities curve.

inside

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

If the economy could produce 42 consumer goods and 12 capital goods, given the current production possibilities curve, the economy would be producing _____ (outside/on/inside) the curve.

outside

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

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Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point A to point B?

5 milk shakes

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point D to point C?

1 hamburger

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point B to point A?

1 hamburger

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

What is the opportunity cost of moving from point B to point C?

2 milk shakes

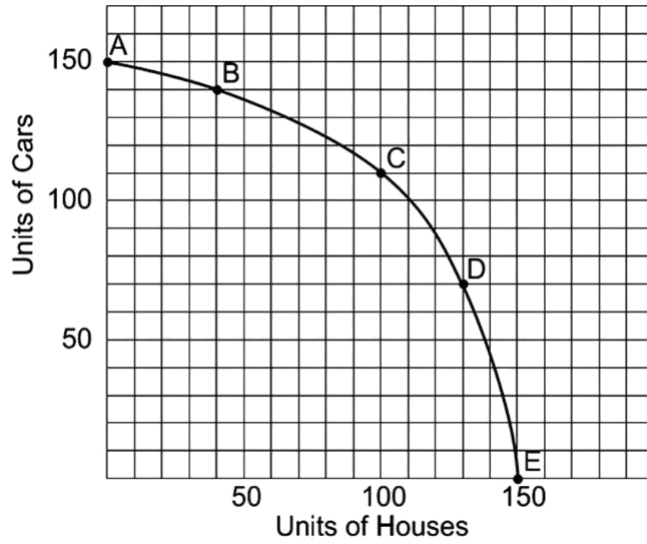
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

229.



What is the opportunity cost of going from point A to point B?

10 cars

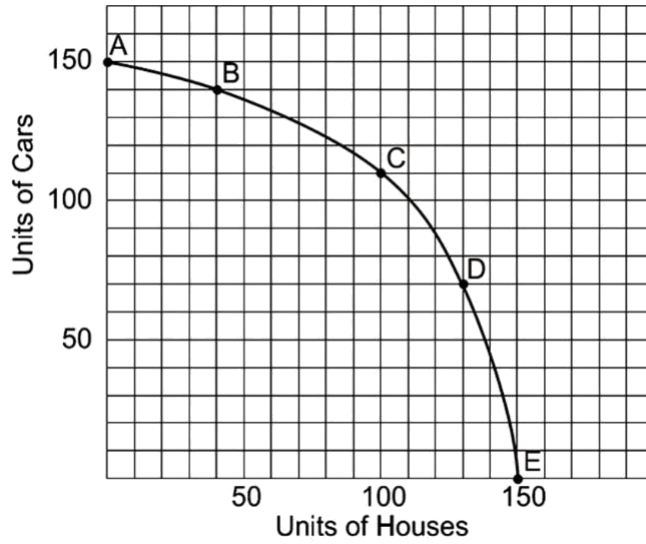
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

230.



What is the opportunity cost of going from point D to point C?

30 houses

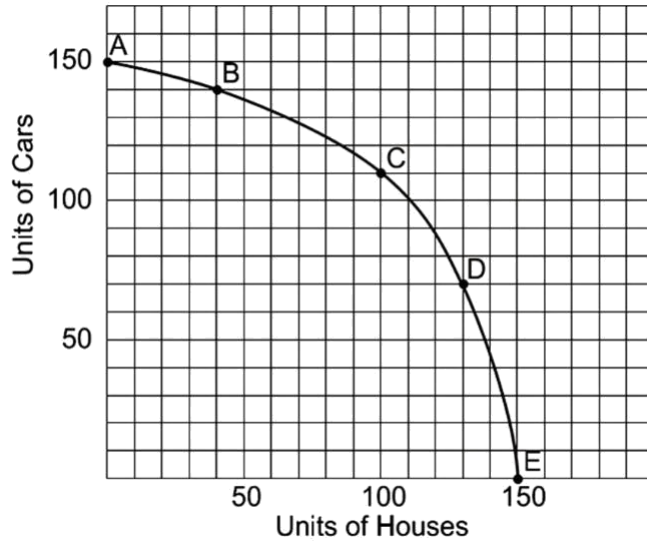
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

231.



What is the opportunity cost of going from point C to point D?

40 cars

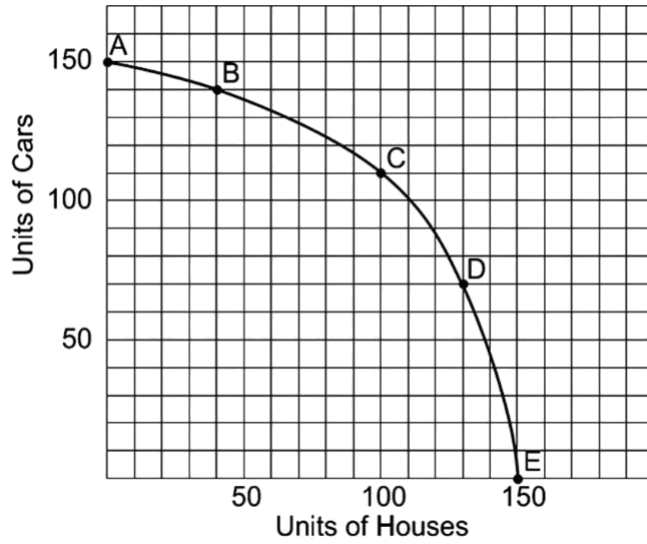
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

232.



What is the opportunity cost of going from point E to point D?

20 houses

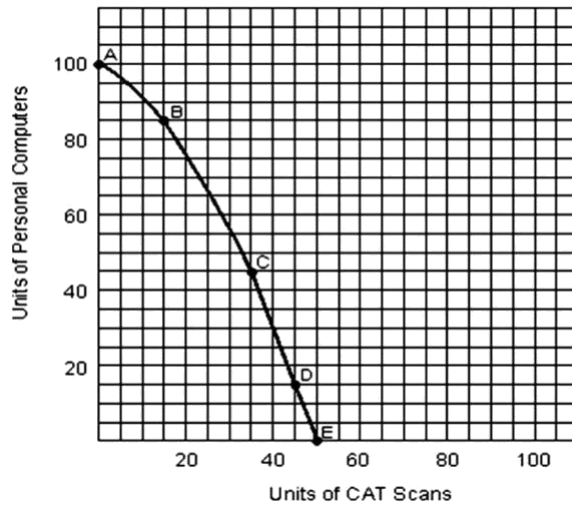
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

233.



What is the opportunity cost of going from point A to point B?

15 PCs

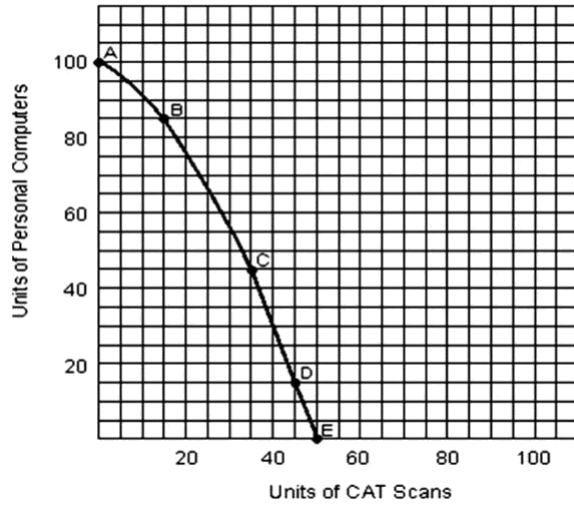
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

234.



What is the opportunity cost of going from point D to point C?

10 CAT scans

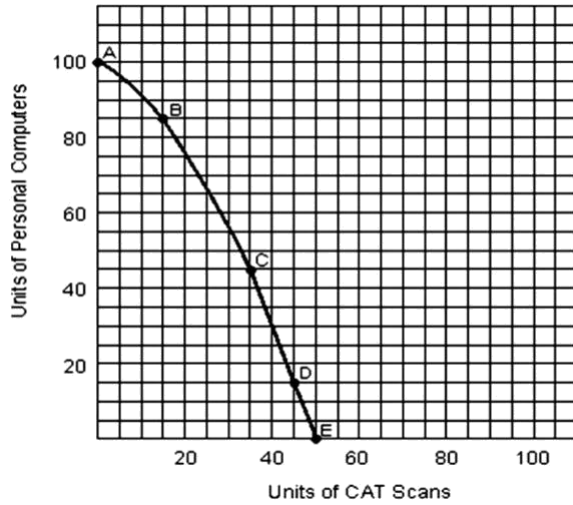
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

235.



What is the opportunity cost of going from point C to point D?

30 PCs

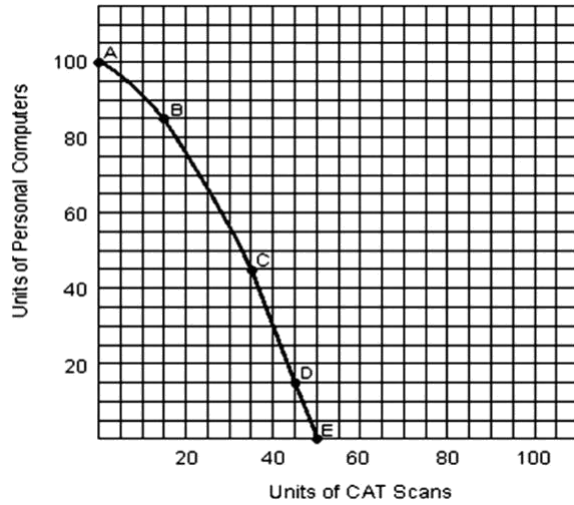
AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.

236.



What is the opportunity cost of going from point E to point D?

5 CAT scans

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Explain and apply the concept of opportunity cost.