

Choose the most appropriate response.

1. Which one of the following is not a part of the opportunity cost of attending college?
 - A) Cost of tuition.
 - B) Cost of textbooks.
 - C) Cost of meals.
 - D) Income that could have been earned by working.
 - E) All of the above.

2. Wanda makes \$20 an hour as a welder. She usually doesn't do anything after work. Today, she must take two hours while travelling home after work to go to the dentist to have a tooth extracted. The dentist charges \$100. The opportunity cost of Wanda's trip to the dentist is
 - A) \$140.
 - B) \$120.
 - C) \$100.
 - D) \$40.
 - E) none of the above.

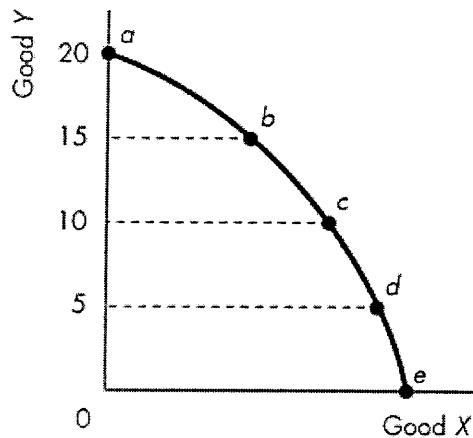
3. The opportunity cost to a customer for getting a \$10 haircut is the
 - A) customer's best alternative use of the \$10.
 - B) customer's best alternative use of the time it takes to get a haircut.
 - C) customer's best alternative use of both the \$10 and the time it takes to get a haircut.
 - D) value of \$10 to the barber.
 - E) value to the barber of the time it takes to give a haircut.

4. Marginal cost is
 - A) the cost of an activity.
 - B) the additional cost of a small increase in an activity.
 - C) the additional cost of a small decrease in an activity.
 - D) the change in incentives due to competition.
 - E) none of the above.

5. Scarcity differs from poverty because
 - A) scarcity is everywhere.
 - B) wants exceed resources even for the rich.
 - C) the rich do not have to make choices.
 - D) the poor do not have any choices.
 - E) none of the above.

6. "The rich should face higher income tax rates than the poor." This is an example of
- A) a normative statement.
 - B) a positive statement.
 - C) a negative statement.
 - D) economic reasoning.
 - E) neither a normative nor a positive statement.

Figure 3.3



7. Figure 3.3 illustrates Mary's production possibility frontier. If Mary wants to move from point *b* to point *c*,
- A) it will be necessary to improve technology.
 - B) it will be necessary to increase the accumulation of capital.
 - C) it will be necessary to give up some of good *X* in order to obtain more of good *Y*.
 - D) it will be necessary to give up some of good *Y* in order to obtain more of good *X*.
 - E) she can accomplish this without any opportunity cost.
8. Refer to the production possibility frontier in Figure 3.3. Which one of the following movements requires the largest opportunity cost of increased *Y*?
- A) *e* to *d*.
 - B) *d* to *c*.
 - C) *c* to *b*.
 - D) *b* to *a*.
 - E) The opportunity cost is the same in each case.
9. If the government passes a new law that makes retirement mandatory at age 35, this will lead to a
- A) shift outward in the production possibility frontier, with all industries equally affected.
 - B) rise in unemployed resources, and a movement outward from the production possibility frontier.
 - C) shift inward in the production possibility frontier.
 - D) shift outward in the production possibility frontier, and those industries that are labour-intensive will have larger rises in their production possibilities.
 - E) shift outward in the production possibilities frontier, and those industries that are capital-intensive will have larger rises in their production possibilities.

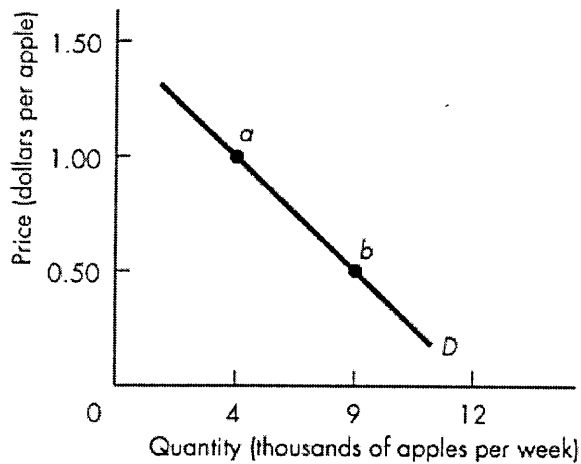
10. Several years ago, the state of Florida was devastated by Hurricane Andrew, and houses, roads, schools, factories, etc. were destroyed. What would be the effect of this hurricane on a production possibility frontier consisting of consumption and capital goods?
- A) It would shift outward at all points.
 - B) It would shift inward at all points.
 - C) There would be a movement along the existing production possibility frontier towards a less capital-intensive point.
 - D) There would be a movement along the existing production possibility frontier towards a more capital-intensive point.
 - E) There would be a movement from the existing production possibility frontier inwards towards a point with unemployed resources.
11. Mexico and Canada produce both oil and apples using labour only. A barrel of oil can be produced with 4 hours of labour in Mexico and 8 hours of labour in Canada. A bushel of apples can be produced with 8 hours of labour in Mexico and 12 hours of labour in Canada. Canada has
- A) an absolute advantage in oil production.
 - B) an absolute advantage in apple production.
 - C) a comparative advantage in oil production.
 - D) a comparative advantage in apple production.
 - E) none of the above.

Fact 3.2

Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour.

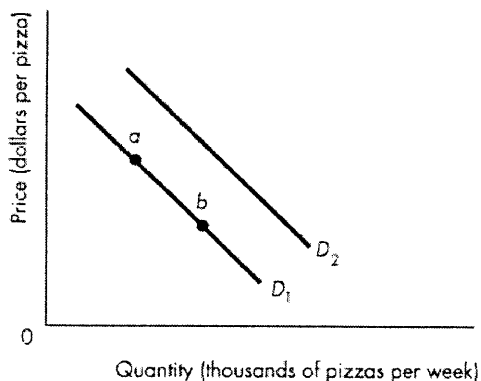
12. Refer to Fact 3.2. Which one of the following statements is true?
- A) Brenda has an absolute advantage over Agnes.
 - B) Agnes has a comparative advantage in the production of Y .
 - C) Brenda has a comparative advantage in the production of X .
 - D) Brenda will not gain from trade.
 - E) Agnes will not gain from trade.
13. Given Fact 3.2, the opportunity cost of producing a unit of X is
- A) 1 unit of Y for Agnes and 2 units of Y for Brenda.
 - B) 1 unit of Y for Agnes and 1/2 unit of Y for Brenda.
 - C) 1 hour for Agnes and 1/2 hour for Brenda.
 - D) 1 hour for Agnes and 2 hours for Brenda.
 - E) 1 hour for Agnes and 1/4 hour for Brenda.

Figure 4.1



14. Point *a* in Figure 4.1 indicates that
- A) \$1 is the least that consumers are willing to pay for the 4,000th apple.
 - B) consumers will not be in equilibrium if the price of an apple is \$1.
 - C) consumers will only pay \$1 for any apple.
 - D) if the price is \$1, consumers will plan to buy 4,000 apples.
 - E) all of the above.
15. Which one of the following would result in a movement from point *a* to point *b* in Figure 4.1?
- A) A decrease in the price of apples.
 - B) An increase in the price of oranges.
 - C) An increase in population size.
 - D) Public concern about chemicals sprayed on apples.
 - E) None of the above.

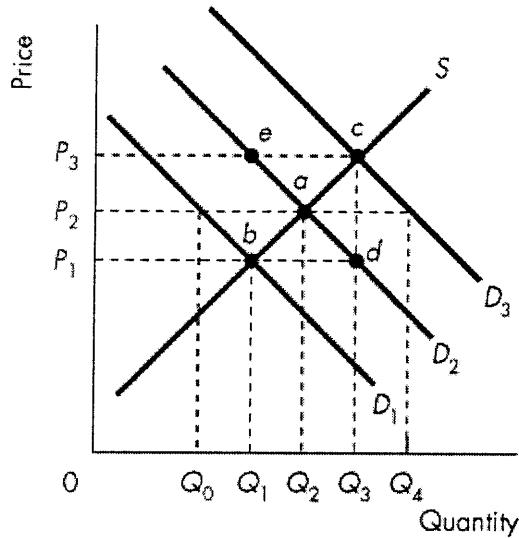
Figure 4.2



16. Which one of the following would cause a shift in demand from D_1 to D_2 in Figure 4.2?
- A) An increase in the supply of pizzas.
 - B) An increase in the price of hamburgers, a substitute for pizzas.
 - C) An increase in the price of pizzas.
 - D) A decrease in the price of pizzas.
 - E) An increase in the price of Coke, a complement for pizzas.

17. A higher price reduces the quantity demanded because
- A) the purchasing power of a household increases.
 - B) households buy less of the good and more of its substitutes.
 - C) households buy more of the good and less of its substitutes.
 - D) the income effect is stronger than the substitution effect.
 - E) both a) and c).
18. A shortage will exist if
- A) the price is above equilibrium.
 - B) the price is below equilibrium.
 - C) there are not enough producers.
 - D) there are not enough consumers.
 - E) demand decreases.
19. Which of the following statement is true?
- A) In a world without scarcity, human wants and desires are totally eliminated.
 - B) If the dentist charges his patients the same price, the opportunity cost is the same for all patients.
 - C) If you can produce more of both X and Y , there is no gain by trading with a smaller producer even if his MRT is different from yours.
 - D) The PPC shows the different combination of inputs used in the production of X and Y .
 - E) "Inflation is a more serious problem than unemployment" is an example of a normative statement.
20. Better technology resulting in the decline in the cost of producing X is represented by
- A) a left shift of the demand curve.
 - B) a right shift of the demand curve.
 - C) a right shift of the supply curve.
 - D) a left shift of the supply curve.
 - E) a movement downward along the original supply curve, i.e. lower price but larger quantity supplied.

Figure 4.5



21. Initially, the demand curve for good A is D_2 in Figure 4.5. Suppose good B is a substitute (in consumption). If the price of B falls,
- A) the price of A will rise.
 - B) there will be a surplus of good A at P_2 .
 - C) the demand for good A will rise.
 - D) the equilibrium quantity will rise.
 - E) the demand curve will shift from D_2 to D_3 .
22. Initially, the demand curve for good A is D_2 in Figure 4.5. If income increases and A is a normal good, the consequence would be represented graphically by a movement from point a to point
- A) b .
 - B) c .
 - C) d .
 - D) e .
 - E) none of the above.