1. The difference between production possibilities frontiers that are bowed out and those that are linear is that
   a. bowed out production possibilities frontiers illustrate tradeoffs where linear production possibilities frontiers do not.
   b. bowed out production possibilities frontiers show increasing opportunity cost where linear ones show constant opportunity cost.
   c. bowed out production possibilities frontiers are the result of perfectly shiftable resources where linear production possibilities frontiers are not.
   d. linear production possibilities frontiers illustrate real world conditions more than bowed out production possibilities frontiers.

2. According to the graph, the opportunity cost of 1 bushel of wheat for Cliff is
   a. 1/3 bushel of corn.
   b. 2/3 bushel of corn.
   c. 1 bushel of corn.
   d. 3/2 bushels of corn.

3. According to the graph, assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in. As a result, total production of corn would
   a. increase by 1 bushel.
   b. increase by 3 bushels.
   c. increase by 5 bushels.
   d. decrease by 2 bushels.

4. According to the graph, assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in and trade 3 bushels of wheat for 3 bushels of corn. Cliff would now be able to consume
   a. 4 bushels of wheat and 3 bushels of corn.
   b. 3 bushels of wheat and 4 bushels of corn.
   c. 3 bushels of wheat and 3 bushels of corn.
   d. 2 bushels of wheat and 3 bushels of corn.

5. According to the graph, which of the following is true for Cliff and Paul?
   a. Paul has a comparative advantage in both wheat and corn.
   b. Paul has a comparative advantage in wheat and Cliff has a comparative advantage in corn.
   c. Cliff has a comparative advantage in wheat and Paul has a comparative advantage in corn.
   d. Cliff has a comparative advantage in both wheat and corn.

6. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that the opportunity cost of 1 chair for
   a. Mike is 1/5 table and 1/3 table for Sandy.
   b. Mike is 5 tables and 3 tables for Sandy.
   c. Mike is 1/3 table and 1/5 table for Sandy.
   d. Mike is 3 tables and 5 tables for Sandy.
7. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. Then suppose that trade is initiated between the two countries, and Freedonia sends 30 units of corn to Sylvania in exchange for 30 units of wheat. Freedonia will now be able to consume a maximum of
   a. 30 units of corn and 30 units of wheat.
   b. no corn and 30 units of wheat.
   c. 60 units of corn and 30 units of wheat.
   d. no corn and 60 units of wheat.

8. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. For many years the two countries traded, each completely specializing in producing the grain for which it has a comparative advantage. Now, however, war has broken out between them and all trade has stopped. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. By how much has the combined yearly output of the two countries declined?
   a. 10 units of corn and 10 units of wheat.
   b. 20 units of corn and 20 units of wheat.
   c. 30 units of corn and 30 units of wheat.
   d. 40 units of corn and 40 units of wheat.

Use the accompanying table to answer the following questions:

<table>
<thead>
<tr>
<th>Labor hours needed to make one unit of</th>
<th>Amount produced in 40 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese</td>
<td>Bread</td>
</tr>
<tr>
<td>England</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>2</td>
</tr>
</tbody>
</table>

9. According to the table, the opportunity cost of 1 unit of cheese in England is
   a. 4 breads.
   b. 2 breads.
   c. 1/2 bread.
   d. 1/4 bread.

10. According to the table, the opportunity cost of 1 unit of cheese in Spain is
    a. 2 breads.
    b. 1 bread.
    c. 1/2 bread.
    d. 1/4 bread.

11. According to the table, the opportunity cost of 1 unit of bread in Spain is
    a. 4 cheeses.
    b. 2 cheeses.
    c. 1 cheese.
    d. 1/4 cheese.

12. According to the table, England has a comparative advantage in
    a. bread and Spain has a comparative advantage in cheese.
    b. cheese and Spain has a comparative advantage in bread.
    c. both goods and Spain has a comparative advantage in neither good.
    d. neither good and Spain has a comparative advantage in both goods.

13. According to the table, England has an absolute advantage in
    a. bread and Spain has an absolute advantage in cheese.
    b. cheese and Spain has an absolute advantage in bread.
    c. neither good and Spain has an absolute advantage in both goods.
    d. both goods and Spain has an absolute advantage in neither good.

14. According to the table, if England and Spain trade based on the principle of comparative advantage, England will export
    a. bread and Spain will export cheese.
    b. bread and Spain will export bread.
    c. cheese and Spain will export cheese.
    d. cheese and Spain will export bread.
15. Scarcity exists when
a. there is less than an infinite amount of a resource or good.
b. society can meet the wants of every individual.
c. there is less of a good or resource available than people wish to have.
d. the government fails to produce goods.

16. The adage, “There is no such thing as a free lunch,” means
a. even people on welfare have to pay for food.
b. the cost of living is always increasing.
c. to get something we like, we usually have to give up another thing we like.
d. all costs are included in the price of a product.

17. A tradeoff exists between a clean environment and a higher level of income in that
a. studies show that individuals with higher levels of income actually pollute less than low-income individuals.
b. to pay for pollution clean-up, the government must increase taxes which lowers income.
c. laws that reduce pollution raise costs of production and reduce incomes.
d. by employing individuals to clean up pollution, employment and income both rise.

18. Which of the following is true?
   a. Efficiency refers to the size of the economic pie; equity refers to how the pie is divided.
   b. Fortunately, government policies are designed to promote both equity and efficiency.
   c. As long as the economic pie continually gets larger, no one will have to go hungry.
   d. Efficiency and equity can both be achieved if the economic pie is cut into equal pieces.

19. College-age athletes who drop out of college to play professional sports
   a. are not rational decision makers.
   b. are well aware that their opportunity cost of attending college is very high.
   c. are concerned more about present circumstances than their future.
   d. underestimate the value of a college education.

20. The average cost per seat on the 50-passenger Floating-On-Air Bus company’s trip from Kansas City to St. Louis is $40. If no refreshments are served and 3 seats are empty, the bus company could increase its profit only if it
   a. charged no less than $40 for the 3 remaining seats.
   b. charged more than $40 for the 3 remaining seats.
   c. charged any ticket price above $0 for the remaining seats.
   d. left the seats empty.

21. Suppose your management professor has been offered a corporate job with a 30% pay increase. He has decided to take the job. For him, the marginal
   a. cost of leaving was greater than the marginal benefit.
   b. benefit of leaving was greater than the marginal cost.
   c. benefit of teaching was greater than the marginal cost.
   d. All of the above are correct.

22. Two reasons for a government to intervene in a market are to
   a. raise revenues and to promote stability.
   b. promote equity and to promote efficiency.
   c. promote equity and to promote stability.
   d. promote efficiency and to promote stability.

23. Causes of market failure include
   a. externalities and market power.
   b. market power and incorrect forecasts of consumer demand.
   c. externalities and foreign competition.
   d. incorrect forecasts of consumer demand and foreign competition.

Answers: 1)b, 2)b, 3)b, 4)c, 5)c, 6)a, 7)a, 8)b, 9)c, 10)d, 11)a, 12)a, 13)d, 14)a, 15)c, 16)c, 17)c, 18)a, 19)b, 20)c, 21)b, 22)b, 23)a