

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following statements provides the best definition of *economics*? 1) _____
- A) The study of production and increasing its efficiency.
 - B) The study of the use of scarce resources to satisfy unlimited human wants.
 - C) The study of the production of goods and services.
 - D) The study of the productive capacity of a nation's factors of production.
 - E) The study of the most equitable distribution of scarce resources.

Answer: B

Diff: 1

Topic: 1.1a. economics/resources

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 2) Society's resources are often divided into broad categories. They are 2) _____
- A) tangible commodities and intangible commodities.
 - B) land, labour, and capital.
 - C) goods and services.
 - D) population and natural resources.
 - E) factors of consumption.

Answer: B

Diff: 1

Topic: 1.1a. economics/resources

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 3) Consider the following list: a worker with training in video gaming technology, 10 hectares of arable land in southern Ontario, a fishing trawler in Nova Scotia, an ice-cream truck at a park in Quebec. Each of these is an example of 3) _____
- A) a factor of production.
 - B) an economic service.
 - C) a commodity.
 - D) goods and services.
 - E) a capital resource.

Answer: A

Diff: 1

Topic: 1.1a. economics/resources

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 4) A basic underlying point in economics is that 4) _____
- A) people have unlimited wants in the face of limited resources.
 - B) governments should never interfere in the workings of a market economy.
 - C) there are unlimited resources.
 - D) governments should satisfy the needs of the people.
 - E) people have limited wants in the face of limited resources.

Answer: A

Diff: 1

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 5) Which of the following best describes the study of economics? 5) _____
- A) why resources are scarce
 - B) how to distribute income as equally as possible
 - C) the allocation of scarce resources among alternative uses
 - D) how to limit human wants so that scarce resources are sufficient
 - E) how to plan an economy

Answer: C

Diff: 1

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 6) Economics can best be described as 6) _____
- A) a normative science.
 - B) the study of the use of scarce resources to satisfy unlimited human wants.
 - C) the study of how a society *ought* to allocate its resources.
 - D) the study of how to reduce inflation and unemployment.
 - E) the application of sophisticated mathematical models to address social problems.

Answer: B

Diff: 1

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 7) Scarcity is likely to be 7) _____
- A) unique to the twentieth century.
 - B) a result of the work ethic.
 - C) a problem that will always exist.
 - D) a problem that will be solved by the proper use of available resources.
 - E) eliminated with a better understanding of economics.

Answer: C

Diff: 2

Topic: 1.1b. scarcity and choice

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 8) The concept of scarcity in economics usually refers to a condition 8) _____
- A) that afflicts only poor countries.
 - B) where too many frivolous goods and services are produced at the expense of socially desirable goods and services.
 - C) where people's wants can never be satisfied by the available resources.
 - D) where production is efficient, but distribution is inefficient.
 - E) where society is not employing all of its available resources in an efficient manner.

Answer: C

Diff: 2

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 9) Which of the following statements best describes the underlying feature in most economic problems? 9) _____
- A) People have limited wants in the face of limited resources.
 - B) People have unlimited wants in the face of limited resources.
 - C) Our country is rich; we just don't realize it.
 - D) Governments should never interfere in the workings of a market economy.
 - E) There are unlimited resources.

Answer: B

Diff: 1

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 10) Because resources are scarce, individuals are required to 10) _____
- A) improve distribution but not production.
 - B) sacrifice production but not consumption.
 - C) use resources inefficiently.
 - D) make choices among alternatives.
 - E) improve production but not distribution.

Answer: D

Diff: 2

Topic: 1.1b. scarcity and choice

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

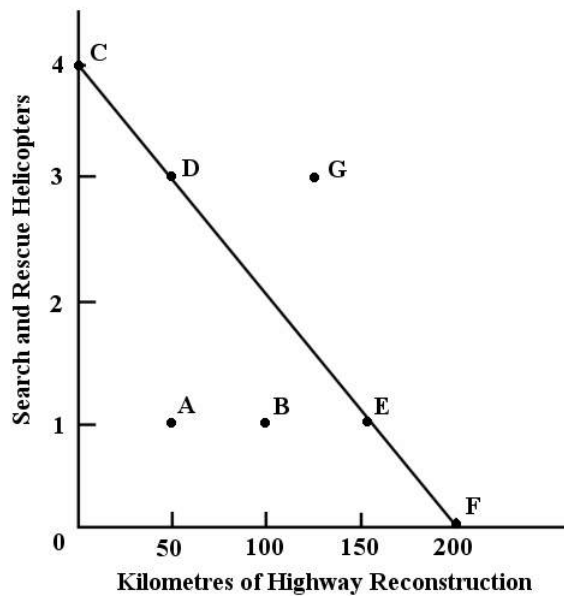


FIGURE 1-1

With a budget of \$200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.

- 11) Refer to Figure 1-1. For the government, the opportunity cost of one search and rescue helicopter is 11) _____
- A) 50 kilometres of highway repair.
 - B) 200 kilometres of highway repair.
 - C) 150 kilometres of highway repair.
 - D) 0 kilometres of highway repair.
 - E) 100 kilometres of highway repair.

Answer: A

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 12) Refer to Figure 1-1. For the government, the opportunity cost of one kilometre of highway repair is 12) _____
- A) 1/100 of a search and rescue helicopter.
 - B) 1 search and rescue helicopter.
 - C) 1/2 of a search and rescue helicopter.
 - D) 1/50 of a search and rescue helicopter.
 - E) 1/10 of a search and rescue helicopter.

Answer: D

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

13) Refer to Figure 1-1. If the government chooses to allocate all \$200 million to highway repair, we can say that

13) _____

- A) there is no opportunity cost involved because the government has achieved its objectives.
- B) the opportunity cost of the highway repair is \$0.
- C) there is no opportunity cost involved because the government stayed within its budget.
- D) the opportunity cost of the highway repair is uncertain.
- E) the opportunity cost of the highway repair is 4 search and rescue helicopters.

Answer: E

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

14) Refer to Figure 1-1. Which of the following combinations of kilometres of highway repair and helicopters is unaffordable, given the government's budget of \$200 million?

14) _____

- A) D
- B) G
- C) E
- D) F
- E) B

Answer: B

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

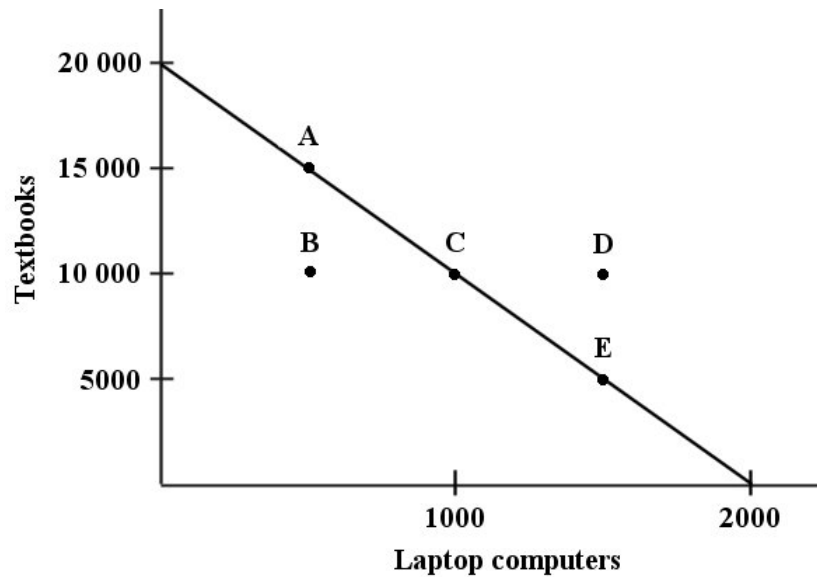


Figure 1-2

15) Refer to Figure 1-2. For the school board, what is the opportunity cost of one additional laptop computer? 15) _____

- A) 0 textbooks
- B) 1/10 of a textbook
- C) 10 textbooks
- D) 20 textbooks
- E) 2000 textbooks

Answer: C

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

16) Refer to Figure 1-2. For the school board, what is the opportunity cost of one additional textbook? 16) _____

- A) 2000 laptops
- B) 1000 laptops
- C) 1/100 of a laptop
- D) 1/1000 of a laptop
- E) 1/10 of a laptop

Answer: E

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 17) Refer to Figure 1–2. Suppose the school board chooses to allocate all \$500 000 to the purchase of laptop computers. What is the opportunity cost of this entire purchase? 17) _____
- A) The opportunity cost is 20,000 textbooks.
 - B) The opportunity cost is uncertain.
 - C) The opportunity cost is 2000 laptops.
 - D) There is no opportunity cost because the purchase was made within the available budget.
 - E) The opportunity cost is \$0.

Answer: A

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 18) Refer to Figure 1–2. Which of the following combinations of textbooks and laptops is unaffordable, given the school board’s budget of \$500 000? 18) _____
- A) A
 - B) B
 - C) C
 - D) D
 - E) E

Answer: D

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 19) Refer to Figure 1–2. What is the price of a textbook in this example? 19) _____
- A) \$25
 - B) \$40
 - C) \$50
 - D) \$100
 - E) \$250

Answer: A

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 20) Refer to Figure 1–2. What is the price of a laptop computer in this example? 20) _____
- A) \$25
 - B) \$40
 - C) \$50
 - D) \$100
 - E) \$250

Answer: E

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

- 21) Refer to Table 1-1. What is Tristan's opportunity cost of producing one fishing lure? 21) _____
- A) 3 mowed lawns
 - B) 4 mowed lawns
 - C) 1/3 of a mowed lawn
 - D) one mowed lawn
 - E) 1/4 of a mowed lawn

Answer: E

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 22) Refer to Table 1-1. What is Thomas's opportunity cost of producing one fishing lure? 22) _____
- A) 5 lures
 - B) 1 mowed lawn
 - C) there is no opportunity cost
 - D) 1/6 of a mowed lawn
 - E) 1/6 of a lure

Answer: B

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 23) Refer to Table 1-1. What is Tristan's opportunity cost of producing one mowed lawn? 23) _____
- A) 4 fishing lures
 - B) 6 fishing lures
 - C) 3 fishing lures
 - D) 12 fishing lures
 - E) one fishing lure

Answer: A

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 24) Refer to Table 1–1. What is Thomas's opportunity cost of producing one mowed lawn? 24) _____
- A) 12 fishing lures
 - B) 1/6 fishing lure
 - C) 0 fishing lures
 - D) one fishing lure
 - E) 6 fishing lures

Answer: D

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 25) Refer to Table 1–1. If Tristan and Thomas want to maximize their joint output from one day of work, how should they specialize their production? 25) _____
- A) Tristan produces 6 lures; Thomas produces 6 lures
 - B) Tristan produces 3 mowed lawns; Thomas produces 6 mowed lawns
 - C) Tristan produces 6 lures and 3 mowed lawns
 - D) Tristan produces nothing, Thomas produces 6 lures and 6 mowed lawns
 - E) Tristan produces 12 lures; Thomas produces 6 mowed lawns

Answer: E

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 26) Refer to Table 1–1. Which of the following statements about Tristan's and Thomas's opportunity costs is correct? 26) _____
- A) Tristan has a higher opportunity cost of producing mowed lawns.
 - B) Thomas has a higher opportunity cost of producing mowed lawns.
 - C) Tristan has a higher opportunity cost of producing fishing lures.
 - D) Thomas has a higher opportunity cost of producing fishing lures.
 - E) Both A and D are correct.

Answer: E

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

Madeleine allows herself \$100 per month for purchasing coffee. The diagram below illustrates the choices available to her.

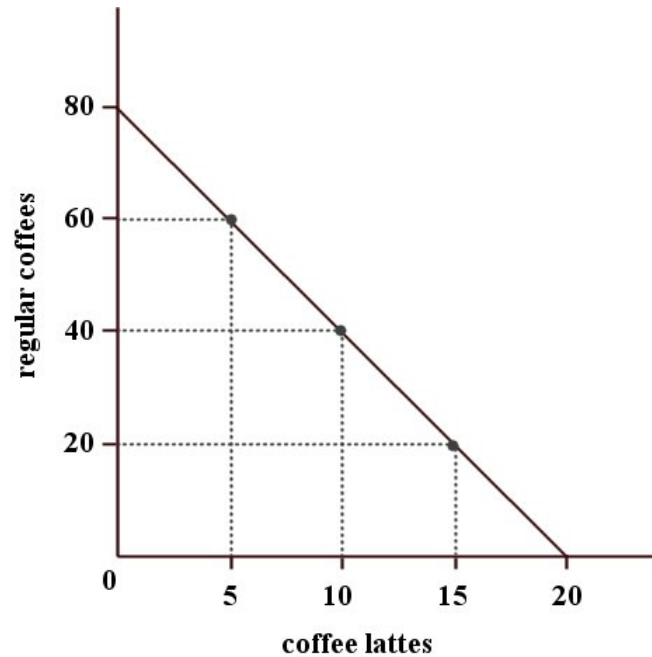


FIGURE 1-3

27) Refer to Figure 1-3. For Madeleine, the opportunity cost of one regular coffee is

27) _____

- A) 1/4 of a regular coffee.
- B) 20 lattes.
- C) 4 lattes.
- D) 80 lattes.
- E) 1/4 of a latte.

Answer: E

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

28) Refer to Figure 1-3. For Madeleine, the opportunity cost of one latte is

28) _____

- A) 8 regular coffees.
- B) 1/4 of a regular coffee.
- C) 4 regular coffees.
- D) 1/4 of a latte.
- E) 80 regular coffees.

Answer: C

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 29) Refer to Figure 1–3. If Madeleine chooses to allocate all \$100 to buying lattes, we can say that her opportunity cost in one month is 29) _____
- A) zero because she stayed within her budget.
 - B) 80 cups of regular coffee.
 - C) 20 cups of regular coffee.
 - D) zero because she bought what she desired.
 - E) 40 cups of regular coffee.

Answer: B

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 30) Refer to Figure 1–3. Which of the following combinations of regular coffees and lattes is affordable over the one-month period, given Madeleine's budget? 30) _____
- A) 16 lattes and 16 coffees
 - B) 8 lattes and 50 coffees
 - C) 4 lattes and 66 coffees
 - D) 15 lattes and 30 coffees
 - E) 20 lattes and 80 coffees

Answer: A

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1–2

- 31) Refer to Table 1–2. What is Claire's opportunity cost of completing 1 chemistry lab report? 31) _____
- A) $\frac{3}{4}$ of a biology lab report
 - B) 3 biology lab reports
 - C) 2 biology lab reports
 - D) $1\frac{1}{2}$ biology lab reports
 - E) $\frac{2}{3}$ of a biology lab report

Answer: E

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 32) Refer to Table 1–2. What is Sam's opportunity cost of completing 1 chemistry lab report? 32) _____
- A) 3 of a biology lab report
 - B) $\frac{2}{3}$ of a biology lab report
 - C) $\frac{3}{4}$ of a biology lab report
 - D) $\frac{4}{3}$ of a biology lab report
 - E) 4 of a biology lab report

Answer: C

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 33) Refer to Table 1–2. What is Sam's opportunity cost of completing 3 biology lab reports? 33) _____
- A) 4 chemistry lab reports
 - B) 0 chemistry lab reports
 - C) 2 chemistry lab reports
 - D) 3 chemistry lab reports
 - E) 1 chemistry lab reports

Answer: A

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 34) Refer to Table 1–2. What is Sam's opportunity cost of completing 2 biology lab reports? 34) _____
- A) 4 chemistry lab reports
 - B) $\frac{2}{3}$ of a chemistry lab report
 - C) $2\frac{2}{3}$ chemistry lab reports
 - D) $\frac{3}{4}$ of a chemistry lab report
 - E) $1\frac{1}{3}$ chemistry lab reports

Answer: C

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 35) Refer to Table 1–2. Which of the following statements about Claire's and Sam's opportunity costs is correct? 35) _____
- A) Claire has a higher opportunity cost for completing 1 biology lab report.
 - B) Sam has a lower opportunity cost for completing 1 chemistry lab report.
 - C) Sam has a higher opportunity cost for completing 1 biology lab report.
 - D) Claire and Sam have equal opportunity costs.
 - E) Claire has a higher opportunity cost for completing 1 chemistry lab report.

Answer: A

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 36) Scarcity arises from limited resources. For this reason, all economic choices involve 36) _____
- A) greed.
 - B) a value judgement.
 - C) pride.
 - D) an opportunity cost.
 - E) complementary ends.

Answer: D

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Recall

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 37) The opportunity cost of going to college or university for four years is 37) _____
- A) the cost of tuition, residence fees and books.
 - B) the cost of tuition and books and four years of lost wages from employment.
 - C) the least valued alternative one forfeits to attend.
 - D) zero.
 - E) equal to the wage rate a person will earn after graduation.

Answer: B

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 38) Suppose there are only three alternatives to attending a "free" social event: read a novel (you value this at \$10), go to work (you could earn \$20), or watch videos with some friends (you value this at \$25). The opportunity cost of attending the social event is 38) _____
- A) \$10. B) \$20. C) \$25. D) \$45. E) \$55.

Answer: C

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 39) The opportunity cost of producing good *A* is defined to be 39) _____
- A) the cheapest method of producing good *A*.
 - B) the retail price of good *A*.
 - C) the cost of having to get by using something else in place of good *A*.
 - D) what must be sacrificed of other goods to get an additional unit of good *A*.
 - E) the money cost of the factors of production used in good *A*.

Answer: D

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 40) Suppose that one unit of labour can produce either 5 units of wool or 2 pineapples. What is the opportunity cost of producing 1 pineapple? 40) _____
- A) zero
 - B) 2 units of wool
 - C) 5/2 units of wool
 - D) 5 units of wool
 - E) 2/5 unit of wool

Answer: C

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 41) A small landscaping firm purchases a tractor that, in one day, is capable of drilling 60 fence-post holes or removing 12 tree stumps (or some intermediate combination). For this landscaper, what is the opportunity cost of removing one extra tree stump? 41) _____
- A) 1/5 of the cost of the tractor
 - B) drilling 12 fence-post holes
 - C) drilling 5 fence-post holes
 - D) 1/12th of the cost of the tractor
 - E) there is no opportunity cost

Answer: C

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 42) Suppose that a bakeshop with 5 employees can produce both pies and cakes. In one day, if all resources are devoted to baking pies, the shop can produce 125 pies; if all resources are devoted to baking cakes, the shop can produce 50. What is the shop's opportunity cost of producing any one cake? 42) _____
- A) 0.4 pies B) 2.5 pies C) 0.25 pies D) 2.5 cakes E) 0.4 cakes

Answer: B

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 43) Suppose that a bakeshop with 5 employees can produce both pies and cakes. In one day, if all resources are devoted to baking pies, the shop can produce 125 pies; if all resources are devoted to baking cakes, the shop can produce 50. What is the shop's opportunity cost of producing any one pie? 43) _____

A) 50 cakes B) 125 pies C) 2.5 pies D) 0.4 pies E) 0.4 cakes

Answer: E

Diff: 1

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 44) Katie and Hugh are producing pies and jars of pickles. Katie can produce either 200 jars of pickles or 100 pies per month. Hugh can produce either 800 jars of pickles or 200 pies per month. Which of the following statements is correct? 44) _____

- A) Katie's opportunity cost of producing 1 jar of pickles is 2 pies.
- B) Katie's opportunity cost of producing 1 jar of pickles is 1/2 of a pie.
- C) Hugh's opportunity cost of producing 1 jar of pickles is 4 pies.
- D) Hugh's and Katie's opportunity costs of producing are the same.
- E) Hugh's opportunity cost of producing 1 pie is 1/4 jar of pickles.

Answer: B

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 45) Suppose Andrea has a job that pays her \$25 000 per year (after taxes). She is considering quitting her job and going to university full time for four years. Tuition fees and books will cost \$12 000 per year. Living expenses in either situation will cost \$10 000 per year. What is the opportunity cost of Andrea's four-year university degree? 45) _____

A) \$100 000 B) \$120 000 C) \$148 000 D) \$188 000 E) \$88 000

Answer: C

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 46) It has been observed that university enrollment in Canada is higher during periods of high unemployment. A possible explanation for this is that 46) _____

- A) during periods of high unemployment, the opportunity cost is no longer relevant.
- B) when prospects for getting a job are poor, the opportunity cost of going to university is lower.
- C) when prospects for getting a job are poor, the opportunity cost of doing nothing is higher.
- D) during periods of high unemployment, tuition fees are reduced.
- E) when prospects for getting a job are poor, the opportunity cost of getting a job is lower.

Answer: B

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 47) Chantal has a full-time job as a geological engineer and earns an annual after-tax salary of \$85 000. She decides to leave her job for 6 months to scuba dive on the Great Barrier Reef in Australia, and incurs costs of \$7500 for course equipment and certification, \$2500 for airfare, and \$12 000 for regular living expenses in Australia (equal to her living expenses at home). What is Chantal's opportunity cost for this 6-month, unpaid leave of absence? 47) _____
- A) \$65 000 B) \$22 000 C) \$52 500 D) \$42 000 E) \$12 000

Answer: C

Diff: 3

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 48) During economic recessions, the opportunity cost of going to university _____ because the wages a student can expect to earn working in the best alternative _____. 48) _____
- A) decreases; increase
B) remains the same; remain the same
C) increases; decrease
D) decreases; decrease
E) increases; increase

Answer: D

Diff: 2

Topic: 1.1c. opportunity cost

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 49) A country's production possibilities boundary shows that 49) _____
- A) the supply for goods always exceeds the demand.
B) when a society combines its resources efficiently, it cannot produce more of one good without producing less of the other good.
C) when a society combines its resources inefficiently, it cannot produce more of one good without producing less of the other good.
D) when a society combines its resources efficiently, it is always possible to produce more of all goods.
E) all points inside the boundary are preferred to all points on the boundary.

Answer: B

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 50) Consider a production possibilities boundary showing the possible combinations of military goods and civilian goods that a country can produce. Suppose that the country is currently at a point on the boundary. If the production of military goods is increased, the production of civilian goods will necessarily _____
- A) remain the same.
 - B) increase.
 - C) decrease.
 - D) increase at an increasing rate.
 - E) increase at a decreasing rate.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 51) A point lying inside the production possibilities boundary is one at which _____
- A) the economy has run out of resources.
 - B) there is no scarcity.
 - C) more output could be produced with existing resources.
 - D) the opportunity cost of producing more output is negative.
 - E) it is not possible to produce more output with existing resources.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 52) If a country's production possibilities boundary is drawn as a straight (downward-sloping) line it indicates _____
- A) the use of the scarce resources in an economy.
 - B) constant opportunity cost of producing more of either good.
 - C) decreasing opportunity cost of producing more of either good.
 - D) an unfair distribution of resources in an economy.
 - E) increasing opportunity cost of producing more of either good.

Answer: B

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

The diagram below shows two production possibilities boundaries for Country X.

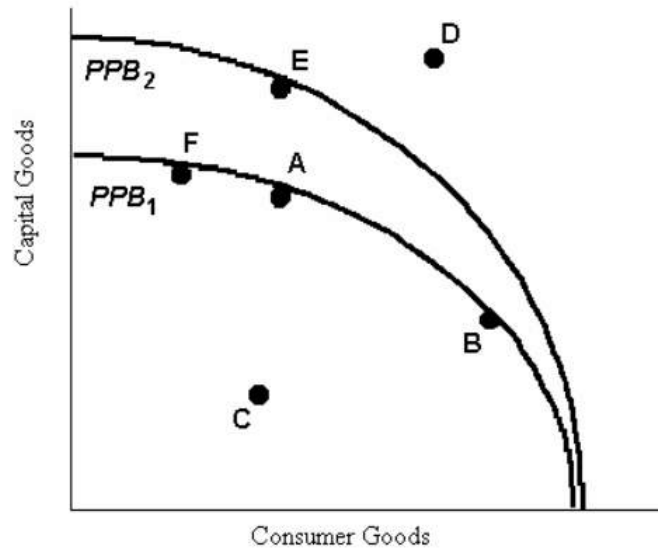


FIGURE 1-4

53) Refer to Figure 1-4. The production possibilities boundaries are drawn concave to the origin. What does this shape of the PPB demonstrate? 53) _____

- A) the increasing opportunity cost of producing more of either good
- B) the scarcity of resources in the economy
- C) the decreasing opportunity cost of producing more of either good
- D) the unfair distribution of resources in the economy
- E) the constant opportunity cost of producing more of either good

Answer: A

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

54) Refer to Figure 1-4. If Country X, constrained by the production possibilities boundary PPB_1 , is producing the combination of goods indicated at point F, it can produce more consumer goods by moving to one of the points 54) _____

- A) A, B, C, D, or E.
- B) D or E
- C) A or E.
- D) A, B, or C.
- E) A or B, but not C.

Answer: D

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 55) Refer to Figure 1–4. If Country X is currently producing at point A, it could move to point B if 55) _____
- A) some resources were switched from the consumer goods industries to the capital goods industries.
 - B) some resources were switched from the capital goods industries to the consumer goods industries.
 - C) the cost of producing capital goods were to increase.
 - D) the cost of producing consumer goods were to increase.
 - E) Country X is no longer able to produce the quantity of capital goods at point A.

Answer: B

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 56) Refer to Figure 1–4. If Country X were producing at point C, 56) _____
- A) this is the maximum output possible from given resources.
 - B) the opportunity cost of moving to point A is zero.
 - C) the opportunity cost of moving to point B is to give up some consumption goods.
 - D) it is not possible to move to any point on PPB_1 or PPB_2 without technological progress.
 - E) the opportunity cost of moving to point A is to give up some capital goods.

Answer: B

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 57) Refer to Figure 1–4. At point B, 57) _____
- A) the price of capital goods is higher than the price of consumer goods.
 - B) Country X is producing too many consumer goods and too few capital goods.
 - C) the opportunity cost of producing an extra unit of capital goods is higher than at point A.
 - D) the opportunity cost of producing an extra unit of consumer goods is higher than at point A.
 - E) the price of consumer goods is equal to the price of capital goods.

Answer: D

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 58) Refer to Figure 1–4. If Country X, constrained by the production possibilities boundary PPB_1 , is 58) _____ currently producing at point A, it can produce more capital goods by moving to point
- A) D.
 - B) B.
 - C) F.
 - D) E.
 - E) C.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 59) Refer to Figure 1–4. Suppose that Country X is currently producing at point E. Country X could achieve production at point D if 59) _____
- A) firms reduced output of capital goods.
 - B) the given resources were more efficiently employed.
 - C) the given resources were fully employed.
 - D) sufficient improvements in technology occurred in either the capital goods industry or the consumer goods industries.
 - E) the prices of capital goods and consumption goods fell.

Answer: D

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 60) Refer to Figure 1–4. A shift of the production possibilities boundary from PPB_1 to PPB_2 implies 60) _____
- A) that if point E is the new choice of outputs, productivity has increased in the consumer goods industry.
 - B) an inevitable decrease in total output.
 - C) that technology in the capital goods industries has improved.
 - D) that technology in the consumer goods industry has improved.
 - E) a movement from full employment to some unemployment.

Answer: C

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 61) Refer to Figure 1–4. Growth in the country's productive capacity is illustrated by 61) _____
- A) the movement between points on a given boundary.
 - B) a movement from a point inside the boundary such as C to the boundary.
 - C) an outward shift of the boundary, for example from PPB_1 to PPB_2 .
 - D) a point like D outside the boundary.
 - E) a single point such as A on the boundary.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

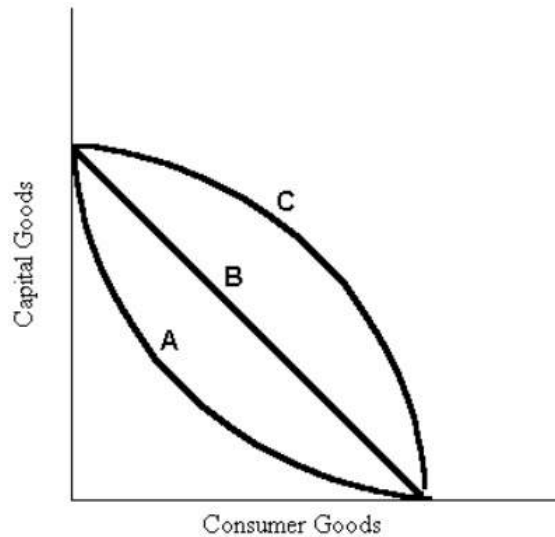


FIGURE 1-5

- 62) Refer to Figure 1-5. Suppose that the relevant production possibilities boundary is the one labelled B. This boundary implies that 62) _____
- A) in this society the resources are not efficiently employed.
 - B) the concept of opportunity cost is not at work in this economy.
 - C) consumer goods are preferred to capital goods.
 - D) capital goods are preferred to consumer goods.
 - E) the opportunity cost of producing either capital goods or consumer goods does not depend on how much of each good is produced.

Answer: E

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 63) Refer to Figure 1-5. Which production possibilities boundaries are consistent with increasing opportunity costs? 63) _____
- A) boundary A only
 - B) boundary C only
 - C) boundaries A, B, and C
 - D) boundaries B and C
 - E) boundaries A and B

Answer: B

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 64) Refer to Figure 1-5. Which production possibilities boundaries exhibit decreasing opportunity costs? 64) _____
- A) boundaries A and B
 - B) boundary B only
 - C) boundary C only
 - D) boundaries A and C
 - E) boundary A only

Answer: E

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 65) If there is always a three-for-one trade-off between the production of goods X and Y, then the production possibilities boundary for X and Y is 65) _____
- A) a downward-sloping curve convex to the origin.
 - B) a downward-sloping straight line that is broken at one point.
 - C) a downward-sloping curve concave to the origin.
 - D) semi-circular.
 - E) a downward-sloping straight line.

Answer: E

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 66) On a diagram of a production possibilities boundary, the concept of scarcity is illustrated by the 66) _____
- A) points on the boundary.
 - B) area within the boundary.
 - C) distance from the origin to the boundary.
 - D) unattainable points outside the boundary.
 - E) negative slope of the boundary.

Answer: D

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 67) On a diagram of a production possibilities boundary, the concept of opportunity cost is illustrated by the _____
- A) boundary being concave to the origin.
 - B) area bounded by the two axes and the boundary.
 - C) negative slope of the boundary.
 - D) distance from the origin to the boundary.
 - E) unattainable points outside the boundary.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 68) A straight-line production possibilities boundary differs from a concave boundary in which of the following ways? _____
- A) The concave boundary illustrates constant opportunity costs, whereas the straight-line boundary illustrates decreasing opportunity costs.
 - B) The straight-line boundary shows opportunity cost, whereas the concave boundary does not.
 - C) A straight-line boundary is associated with a command economy, whereas a concave boundary is associated with a free-market economy.
 - D) The straight-line boundary does not show scarcity, whereas the concave boundary does.
 - E) The straight-line boundary illustrates constant opportunity costs, whereas the concave boundary illustrates increasing opportunity costs.

Answer: E

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 69) Consider Canada's production possibilities boundary. Suppose a scientific breakthrough leads to a lower-cost method of producing battery-operated cars in Canada. The likely effect would be to move Canada's current production _____
- A) to a point beyond its new production possibilities boundary.
 - B) to a point inside its new production possibilities boundary.
 - C) above the level of U.S. production.
 - D) possibilities boundary outward.
 - E) possibilities boundary inward.

Answer: D

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

70) Consider Canada's production possibilities boundary. Suppose fire destroys many millions of hectares of valuable Canadian forest. The effect on the Canadian economy would be best illustrated by _____ the production possibilities boundary. 70) _____

- A) a movement inside
- B) a movement to a point beyond
- C) a shift outward of
- D) a movement along
- E) an inward shift of

Answer: E

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

71) Consider Canada's production possibilities boundary. During the nineteenth and early twentieth centuries, millions of people immigrated to western Canada. The effect on the Canadian economy was to 71) _____

- A) move it beyond its new production possibilities boundary.
- B) shift its production possibilities boundary outward.
- C) shift its production possibilities boundary inward.
- D) move it inside its new production possibilities boundary.
- E) move it along an unchanged production possibilities boundary.

Answer: B

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

72) In recent years, several large Canadian-owned mining and resource companies have been sold to foreign owners. The immediate effect on Canada's production possibilities boundary is 72) _____

- A) a shift outward.
- B) no change.
- C) a movement along.
- D) a shift inward.
- E) a movement to a point beyond the boundary.

Answer: B

Diff: 3

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 73) A move from inside the production possibilities boundary to the boundary itself could be caused by _____
- A) the employment of previously idle resources.
 - B) an increase in the labour supply.
 - C) an improvement in the government's ability to control its spending.
 - D) a reallocation of resources from military to civilian goods.
 - E) technological progress.

Answer: A

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 74) Consider a production possibilities boundary showing the quantity of military goods and the quantity of civilian goods on the two axes. A movement along the production possibilities boundary could be caused by _____
- A) the reallocation of resources between military and civilian goods.
 - B) an increase in the labour supply.
 - C) technological progress.
 - D) the employment of previously idle resources.
 - E) the growth of productive capacity.

Answer: A

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.

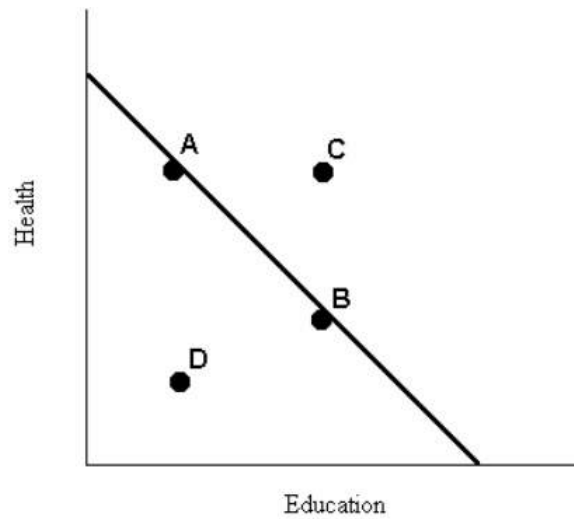


FIGURE 1-6

75) Refer to Figure 1-6. The levels of health and education expenditures at point C

75) _____

- A) are less than at point D.
- B) could be achieved if the prices of health and/or education increased.
- C) are not attainable with the government's current budget.
- D) are more cost-effective than those at points A, B, and D.
- E) are equal to those of point A and point B.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

76) Refer to Figure 1-6. If the government's spending on health and education is given by point B, a move to point A must involve

76) _____

- A) less spending in total.
- B) more spending on education.
- C) zero opportunity cost.
- D) less spending on education.
- E) less spending on health.

Answer: D

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 77) Refer to Figure 1–6. Suppose the government's current spending is shown by point D. In this case, 77) _____
- A) more health expenditures can be achieved only by sacrificing some education expenditures.
 - B) the government should spend its total budget so as to get to point B, since more health spending and more education spending are both clearly desirable.
 - C) the government is not spending its total budget.
 - D) more education expenditures can be achieved only by sacrificing some health expenditures.
 - E) the prices of education and health care have increased beyond the government's ability to pay.

Answer: C

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 78) Consider the production possibilities boundary (PPB) of an economy. Economic growth is 78) _____ illustrated by
- A) an outward shift of the PPB.
 - B) a movement along the PPB.
 - C) the movement to a point outside of the PPB.
 - D) a movement onto the PPB.
 - E) the negative slope of the PPB.

Answer: A

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 79) Suppose drought destroys many millions of acres of valuable Canadian farmland. The effect on the 79) _____ Canadian economy would be to move
- A) it along its production possibilities boundary.
 - B) its production possibilities boundary inward.
 - C) its production possibilities boundary outward.
 - D) it beyond its production possibilities boundary.
 - E) None of the above. There would be no change in Canada's production possibilities boundary.

Answer: B

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 80) Suppose there are only two goods produced in our economy—snowplows and helicopters. If there is always a two-for-one tradeoff between the production of these two goods (in terms of opportunity cost), then the production possibilities boundary between snowplows and helicopters is _____ 80)
- A) circular.
 - B) a downward-sloping curve concave to the origin.
 - C) a downward-sloping curve convex to the origin.
 - D) a downward-sloping straight line with slope equal to -1.
 - E) a downward-sloping straight line.

Answer: E

Diff: 2

Topic: 1.1d. production possibilities boundary

Skill: Applied

Learning Obj.: 1-1 Explain the importance of scarcity, choice, and opportunity cost, and how all three concepts are illustrated by the production possibilities boundary.

- 81) A modern economy like Canada's is largely organized by _____ 81)
- A) individuals following their own self interest, doing what seems best for themselves.
 - B) governments at all levels coordinating the activities of firms and citizens.
 - C) the self-interested behaviour of a small number of individuals.
 - D) benevolent individuals pursuing the public interest.
 - E) individuals forming cooperative enterprises and labour unions.

Answer: A

Diff: 2

Topic: 1.2a. self-organizing economy

Skill: Recall

Learning Obj.: 1-2 View the market economy as self-organizing in the sense that order emerges from a large number of decentralized decisions.

- 82) An insight first fully developed by Adam Smith is that _____ 82)
- A) without benevolence production would not occur.
 - B) self-interest, not benevolence, is the foundation of economic order.
 - C) self-interest undermines effective economic order.
 - D) all individuals are motivated solely by self-interest.
 - E) individual self-interest is the only necessary force for social order.

Answer: B

Diff: 1

Topic: 1.2a. self-organizing economy

Skill: Recall

Learning Obj.: 1-2 View the market economy as self-organizing in the sense that order emerges from a large number of decentralized decisions.

- 83) In the Canadian economy, most decisions regarding resource allocation are made by _____ 83) _____
- A) the various levels of government.
 - B) negotiation between unions and firms.
 - C) legal contract.
 - D) business firms only.
 - E) consumers and producers interacting in the price system.

Answer: E

Diff: 1

Topic: 1.2a. self-organizing economy

Skill: Recall

Learning Obj.: 1-2 View the market economy as self-organizing in the sense that order emerges from a large number of decentralized decisions.

- 84) The famous economist who first described the division of labour was _____ 84) _____
- A) Karl Marx.
 - B) Adam Smith.
 - C) David Ricardo.
 - D) John Maynard Keynes.
 - E) Milton Friedman.

Answer: B

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 85) Which of the following statements about specialization and trade are correct? _____ 85) _____
- A) They exist only in capitalist economies.
 - B) They developed only in the twentieth century.
 - C) They occur only in the private sector.
 - D) They arose as humans changed from nomadic and self-sufficient food gatherers to settled food producers.
 - E) They developed only where government and political institutions were stable.

Answer: D

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 86) If an economy exhibits the specialization of labour, we know that _____ 86) _____
- A) each worker is self-sufficient.
 - B) job security is ensured.
 - C) different individuals are producing different products.
 - D) most production is artisanal in nature.
 - E) a barter economy is more suitable.

Answer: C

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 87) Which of the following statements best describes a barter system of exchange? 87) _____
- A) It developed late in history.
 - B) It does not involve the double coincidence of wants.
 - C) It is the most efficient form of exchange.
 - D) It requires the use of money.
 - E) It involves the trading of goods directly for other goods.

Answer: E

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 88) Specialization of labour led to greater efficiency in the allocation of resources because of 88) _____
- A) the principle of comparative advantage.
 - B) the opportunity cost of labour increased.
 - C) greater reliance on self-sufficiency.
 - D) the use of barter.
 - E) an increase in total work effort.

Answer: A

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 89) A greater specialization of labour leads to which of the following major results? 89) _____
- A) the overall output of the economy declines
 - B) each worker must become more self-sufficient
 - C) there is a greater need for trade
 - D) the circular flow of income contracts
 - E) there is an increased need for government to intervene in the marketplace

Answer: C

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 90) A farmer selling tomatoes and corn at a roadside, and a currency trader in Hong Kong, are each participating in 90) _____
- A) an involuntary transaction.
 - B) international trade.
 - C) a market.
 - D) flexible manufacturing.
 - E) barter.

Answer: C

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Applied

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 91) Which of the following has most contributed to the globalization of the economy? 91) _____
- A) tariffs and trade barriers
 - B) the shift toward a market economy in China
 - C) the decreased importance of agriculture
 - D) reductions in transportation and communication costs
 - E) the decline in the relative importance of manufacturing

Answer: D

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 92) Which of the following results from the introduction of money for use in transactions? 92) _____
- A) self-sufficiency is assured
 - B) an increased use of barter
 - C) society is able to satisfy all wants
 - D) exchange becomes easier and this promotes the specialization of labour
 - E) the specialization of labour becomes more difficult

Answer: D

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 93) The barter system of exchange is inefficient because 93) _____
- A) markets do not exist.
 - B) exchange partners need to know each other.
 - C) bargaining power is unequal between rich and poor.
 - D) the double coincidence of wants may not exist.
 - E) "fair" values cannot be defined without the use of money.

Answer: D

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Applied

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 94) Which of the point(s) below is (are) true of money? 94) _____
- i) Money eliminated the need for barter.
 - ii) Money allowed for specialization of labour and expansion of trade.
 - iii) Money allowed for the development of a market economy.
 - iv) Money allowed one to save current production for future use.
- A) Only i).
 - B) Only i) and ii).
 - C) Only i) and iv).
 - D) Only i), ii), and iv).
 - E) All of the points are true.

Answer: E

Diff: 2

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 95) Money facilitates trade and specialization by 95) _____
- A) allowing an efficient barter system to develop.
 - B) increasing the value of gold.
 - C) reducing the shift of resources between uses.
 - D) providing employment for coin makers.
 - E) eliminating the need for barter.

Answer: E

Diff: 1

Topic: 1.2c. division of labour, specialization and trade

Skill: Recall

Learning Obj.: 1-3 Explain how specialization gives rise to the need for trade, and that trade is greatly facilitated by money.

- 96) With reference to the circular flow of income, how is the allocation of resources largely decided? 96) _____
- A) by central authorities and firms only
 - B) by firms and households acting independently
 - C) by political parties and firms only
 - D) by individuals only
 - E) by central authorities only

Answer: B

Diff: 1

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 97) The key decision makers in a market economy are 97) _____
- A) governments and all institutions under government control.
 - B) households, firms, and government.
 - C) individual citizens, non-profit organizations, and the Bank of Canada.
 - D) large corporations and labour organizations.
 - E) corporations and governments.

Answer: B

Diff: 1

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 98) Economists usually assume that households and firms, respectively, maximize 98) _____
- A) expenditures and profits.
 - B) income and sales.
 - C) wages and revenues.
 - D) savings and profits.
 - E) utility and profits.

Answer: E

Diff: 2

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 99) In general, which of the following statements is an accurate description of economists' assumptions about households? Households 99) _____
- A) do not make consistent decisions, maximize profits, and are the principal users of the factors of production.
 - B) do not make consistent decisions, maximize satisfaction, and are the principal owners of the factors of production.
 - C) make consistent decisions, maximize profits, and are the principal users of the factors of production.
 - D) make consistent decisions, maximize utility, and are the principal owners of the factors of production.
 - E) make consistent decisions, maximize savings, and are the principal users of the factors of production.

Answer: D

Diff: 2

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 100) Which of the following is illustrated by the circular flow of income? 100) _____
- A) the flows of expenditures and income in a household
 - B) that the flow of payments moves in the same direction as the flow of goods
 - C) the interaction of households and firms through the factors and goods markets
 - D) that there is no relationship between goods markets and factor markets
 - E) that firms own the factors of production

Answer: C

Diff: 2

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 101) Which of the following represents a typical "real" flow (as opposed to a financial flow) in the circular flow of income? 101) _____
- A) goods going from consumers to producers
 - B) money payments going from producers to consumers
 - C) money payments going from consumers to producers
 - D) factor services going from producers to consumers
 - E) goods going from producers to consumers

Answer: E

Diff: 1

Topic: 1.2b. circular flow of income and expenditure

Skill: Recall

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 102) If some income earned by households is not spent on output, or if some income earned by firms is not spent on factor services, the circular flow of income will 102) _____
- A) contract. B) explode. C) run over. D) stop. E) expand.

Answer: A

Diff: 2

Topic: 1.2b. circular flow of income and expenditure

Skill: Applied

Learning Obj.: 1-4 Identify the economy's decision makers and see how their actions create a circular flow of income and expenditure.

- 103) An economic system that relies primarily upon custom and habit in economic decision making is a 103) _____
- A) market system.
 - B) mixed system.
 - C) traditional system.
 - D) command system.
 - E) communist system.

Answer: C

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 104) In practice, the term "centrally planned economy" refers to an economy in which 104) _____
- A) the government makes ALL production and consumption decisions.
 - B) all commodities are rationed.
 - C) the mix of market and command principles is heavily weighted towards the latter.
 - D) the military is in control of the government.
 - E) economic decisions are made in the geographic centre of the country.

Answer: C

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 105) Karl Marx argued that 105) _____
- A) technological change was not important in improving living standards.
 - B) centrally planned economies could provide a more equitable distribution of total output than capitalist economies.
 - C) the unfettered market system driven by self-interest leads to the best social outcome.
 - D) benevolence, not self-interest, produced an effective economic order.
 - E) a free-market system would produce a low level of total output.

Answer: B

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 106) When discussing types of economic systems the Canadian economy is best described as 106) _____
- A) a command economy.
 - B) primarily free-market decision making.
 - C) a mixed economic system.
 - D) primarily a public ownership economy.
 - E) traditional.

Answer: C

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Applied

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 107) With regard to various economic systems, most economists agree that 107) _____
- A) the optimal mix of market and command systems remains constant over time.
 - B) the mix of market and command principles that exists in Canada is the best.
 - C) command economies have been very successful in distributing income in socially just ways.
 - D) most production and consumption decisions are more efficiently coordinated by markets than through central planning.
 - E) government intervention in the economy is only justified in time of war.

Answer: D

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 108) Which countries have mostly public ownership of resources? 108) _____
- A) Brazil and Argentina
 - B) United States and Canada
 - C) Cuba and North Korea
 - D) France and Germany
 - E) Sweden and Norway
- Answer: C
Diff: 1
Topic: 1.3. alternative economic systems
Skill: Recall
Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.
- 109) Behaviour in free-market economies is 109) _____
- A) mostly affected by elements of tradition and government command.
 - B) random and unpredictable.
 - C) based primarily on custom and habit.
 - D) mostly directed by self interest.
 - E) determined by a central authority.
- Answer: D
Diff: 1
Topic: 1.3. alternative economic systems
Skill: Recall
Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.
- 110) In command economies, economic behaviour is 110) _____
- A) largely affected by elements of tradition and market incentives.
 - B) random and unpredictable.
 - C) directed by individual self interest.
 - D) based primarily on custom and habit.
 - E) largely determined by a central authority.
- Answer: E
Diff: 1
Topic: 1.3. alternative economic systems
Skill: Recall
Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.
- 111) In mixed economies, economic behaviour is 111) _____
- A) largely determined by a central authority.
 - B) affected by elements of tradition, government command, and market incentives.
 - C) based primarily on custom and habit.
 - D) directed only by self interest.
 - E) random and unpredictable.
- Answer: B
Diff: 1
Topic: 1.3. alternative economic systems
Skill: Recall
Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 112) In traditional economies, economic behaviour is 112) _____
- A) based primarily on custom and habit.
 - B) affected by elements of tradition, government command, and market incentives.
 - C) directed only by self interest.
 - D) largely determined by a central authority.
 - E) random and unpredictable.

Answer: A

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 113) Complex economic plans for many economic sectors are most associated with a 113) _____
- A) free-market system.
 - B) traditional economy.
 - C) command economy.
 - D) feudal system.
 - E) mixed market system.

Answer: C

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 114) Most modern economies in the world today 114) _____
- A) have pure market exchange.
 - B) have a mix of traditional, command and market elements.
 - C) are mostly run by government decree.
 - D) are complex systems that defy description and analysis.
 - E) are similar to feudal systems.

Answer: B

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 115) In the current Canadian economy, the majority of choices on how resources are allocated are made 115) _____
by
- A) business firms only.
 - B) negotiation between unions and firms.
 - C) legal contracts.
 - D) the various levels of government.
 - E) consumers and firms through the price system.

Answer: E

Diff: 1

Topic: 1.3. alternative economic systems

Skill: Applied

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 116) Comparison of economic systems indicates that 116) _____
- A) most countries have mixed economies.
 - B) capitalist economies are clearly superior in distributing income.
 - C) socialist economies are clearly superior in producing consumer goods.
 - D) most nations have either a purely socialist economy or a purely capitalist economy.
 - E) all countries have largely traditional economies.

Answer: A

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 117) Many economies in central and Eastern Europe, including the countries of the former Soviet Union, are still in the process of moving from a command economy to a market economy. In the first years of this transition, most of these countries experienced sharp drops in output and reductions in living standards. Economists generally see this as 117) _____
- A) an indication that these economies should return to being command economies.
 - B) an indication of the extreme difficulty of transition from one type of economic system to another.
 - C) the difficulty of corruption in non-market economies.
 - D) the failure of the market system.
 - E) the triumph of capitalism over communism.

Answer: B

Diff: 3

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

- 118) In a pure market economy, the role of government is limited to provision of : 118) _____
- i) a basic legal and institutional structure.
 - ii) intervention in the allocation of resources in some areas of the economy.
 - iii) redistribution of income.
 - iv) stabilization of economic conditions generally.

Which of the above points is true?

- A) Only i).
- B) Only i) and ii).
- C) Only i) and iv).
- D) Only i), ii), and iv).
- E) All of the points are provided by government in a pure market economy.

Answer: A

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

119) Income redistribution in a mixed economy

119) _____

- A) rarely occurs.
- B) risks reducing individual incentives to work and produce.
- C) is only accomplished through government intervention.
- D) is supported by all individuals.
- E) is not allowed.

Answer: B

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.

120) In a modern mixed economy the government ensures that key institutions are in place to facilitate voluntary transactions between economic agents. These key institutions are

120) _____

- A) labour and capital markets.
- B) the House of Commons and the Senate.
- C) the Department of Finance and the Bank of Canada.
- D) private property and freedom of contract.
- E) securities regulators and the court system.

Answer: D

Diff: 2

Topic: 1.3. alternative economic systems

Skill: Recall

Learning Obj.: 1-5 See that all actual economies are mixed economies, having elements of free markets, tradition, and government intervention.