1. Economics is the study of
a. production methods.
b. how society manages its scarce resources.
c. how households decide who performs which tasks.
d. the interaction of business and government.

ANSWER: b

2. The overriding reason why households and societies face many decisions is that
a. resources are scarce.
b. goods and services are not scarce.
c. incomes fluctuate with business cycles.
d. people, by nature, tend to disagree.

ANSWER: a

3. John is an athlete. He has $120 to spend and wants to buy either a heart rate monitor or new running shoes. Both the heart rate monitor and running shoes cost $120, so he can only buy one. This illustrates the principle that
a. trade can make everyone better off.
b. people face trade-offs.
c. rational people think at the margin.
d. people respond to incentives.

ANSWER: b

4. The terms equality and efficiency are similar in that they both refer to benefits to society. However they are different in that
a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

ANSWER: a
5. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?

a. equality is increased and efficiency is increased.
b. equality is increased and efficiency is decreased.
c. equality is decreased and efficiency is increased.
d. equality is decreased and efficiency is decreased.

ANSWER: b

6. Which of the following is correct concerning opportunity cost?

a. Except to the extent that you pay more for them, opportunity costs should not include the cost of things you would have purchased anyway.
b. To compute opportunity costs, you should subtract benefits from costs.
c. Opportunity costs and the idea of trade-offs are not closely related.
d. Rational people should compare various options without considering opportunity costs.

ANSWER: a

7. Suppose that you have received $300 as a birthday gift. You can spend it today or you can put the money in a bank account for a year and earn 5 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

a. $0.
b. $15.
c. $305.
d. $315.

ANSWER: d

8. Melody decides to spend three hours working overtime rather than going to the park with her friends. She earns $20 per hour for overtime work. Her opportunity cost of working is

a. the $60 she earns working.
b. the $60 minus the enjoyment she would have received from going to the park.
c. the enjoyment she would have received had she gone to the park.
d. nothing, since she would have received less than $60 worth of enjoyment from going to the park.

ANSWER: c

9. Suppose after graduating from college you get a job working at a bank earning $30,000 per year. After two years of working at the bank earning the same salary, you have an opportunity to enroll in a one-year graduate program that would require you to quit your job at the bank. Which of the following should not be included in a calculation of your opportunity cost?

a. the cost of tuition and books to attend the graduate program
b. the $30,000 salary that you could have earned if you retained your job at the bank
c. the $45,000 salary that you will be able to earn after having completed your graduate program
d. the value of insurance coverage and other employee benefits you would have received if you retained your job at the bank

ANSWER: c
10. If Faith attends college, it will take her four years, during which time she will earn no income. She will pay $50,000 for tuition, $12,000 for room and board, and $5,000 for books. If she spends the four years working rather than attending college, she will pay $18,000 for room and board, pay no tuition, and buy no books. Based on this information, Faith’s economic cost of attending college would be $67,000 if, over the four years, she could earn
   a. $12,000 instead of attending college.
   b. $14,000 instead of attending college.
   c. $16,000 instead of attending college.
   d. $18,000 instead of attending college.

ANSWER:  

11. Rational people make decisions “at the margin” by comparing
   a. average costs and benefits.
   b. total costs and benefits.
   c. additional costs and benefits.
   d. opportunity costs and benefits.

ANSWER:  

12. It costs a meat-processing company $50,000 to produce 5,000 pounds of steak. The company’s cost will be $50,009 if it produces an additional pound of steak. If the company produces 5,001 pounds of steak then
   a. its average cost is greater than its marginal cost.
   b. its average cost and its marginal cost are equal.
   c. its average cost is less than its marginal cost.
   d. there is insufficient information to compute average and marginal costs.

ANSWER:  

13. Bill is restoring a car and has already spent $4,000 on the restoration. He expects to be able to sell the car for $6,200. Bill discovers that he needs to do an additional $2,400 of work to make the car worth $6,200 to potential buyers. He could also sell the car now, without completing the additional work, for $3,800. What should he do?
   a. He should sell the car now for $3,800.
   b. He should keep the car since it wouldn’t be rational to spend $6,400 restoring a car and then sell it for only $6,200.
   c. He should complete the additional work and sell the car for $6,200.
   d. It does not matter if Bill sells the car now or completes the work and then sells it at the higher price because the outcome will be the same either way.

ANSWER:  

14. Suppose the state of Wyoming passes a law that increases the tax on cigarettes. As a result, smokers who live in Wyoming start purchasing their cigarettes in surrounding states. Which of the following principles does this best illustrate?
   a. People respond to incentives.
   b. Rational people think at the margin.
c. Trade can make everyone better off.
d. Markets are usually a good way to organize economic activity.

ANSWER: a

15. One effect of the government-imposed seat belt law in the U.S. has been
a. a dramatic decrease in the number of pedestrian deaths.
b. safer driving.
c. an increase in the number of accidents.
d. a dramatic decrease in the number of driver deaths.

ANSWER: c

16. Dee is an accomplished actress and a homeowner who pays a landscaper to maintain her lawn rather than do it herself. Dee has determined that she can earn more in the hour it would take her to work on her lawn than she must pay her landscaper. This scenario is an example of which principle of economics?
a. Trade can make everyone better off.
b. Markets are usually a good way to organize economic activity.
c. Governments can sometimes improve market outcomes.
d. Prices rise when the government prints too much money.

ANSWER: a

17. Which of the following statements best characterizes a basic difference between market economies and centrally-planned economies?
a. Society relies more upon prices to allocate resources when the economy is centrally-planned than when it is market-based.
b. The self-interest of households is reflected more fully in the outcome of a centrally-planned economy than in the outcome of a market economy.
c. Government plays a larger role in the economic affairs of a market economy than in the economic affairs of a centrally-planned economy.
d. None of the above are correct.

ANSWER: d

18. The famous observation that households and firms interacting in markets act as if they are guided by an “invisible hand” that leads them to desirable market outcomes comes from whose 1776 book?
a. David Ricardo
b. Thorstein Veblen
c. John Maynard Keynes
d. Adam Smith

ANSWER: d

19. Which of the following statements does not apply to a market economy?
a. Firms decide whom to hire and what to produce.
b. The “invisible hand” usually maximizes the well-being of society as a whole.
c. Households decide which firms to work for and what to buy with their incomes.
d. Government policies are the primary forces that guide the decisions of firms and households.

ANSWER: d

20. 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.

ANSWER: a

21. The term "market failure"
a. means the same thing as "market power."
b. refers to the dissolution of a market when firms decide to quit producing a certain product.
c. refers to the failure of a market to produce an efficient allocation of resources.
d. refers to government's failure to enforce the property rights of households or firms that participate in a certain market.

ANSWER: c

22. Productivity is defined as the
a. amount of goods and services produced from each unit of labor input.
b. number of workers required to produce a given amount of goods and services.
c. amount of labor that can be saved by replacing workers with machines.
d. actual amount of effort workers put into an hour of working time.

ANSWER: a

23. In a particular country in 1998, the average worker needed to work 25 hours to produce 40 units of output. In that same country in 2008, the average worker needed to work 40 hours to produce 68 units of output. In that country, the productivity of the average worker
a. decreased by 1.7 percent between 1998 and 2008.
c. increased by 4.75 percent between 1998 and 2008.
d. increased by 6.25 percent between 1998 and 2008.

ANSWER: d

24. In less than two years in the early 1920s, the cost of a German newspaper rose from 0.30 marks to 70,000,000 marks. This is a spectacular example of
a. market power caused by a change in the country’s standard of living.
b. market power caused by a single firm controlling the newspaper production.
c. inflation caused by increased productivity in the economy.
d. inflation caused by an increase in the quantity of money in the economy.
25. In the short run, an increase in the money supply is likely to lead to
a. lower unemployment and lower inflation.
b. lower unemployment and higher inflation.
c. higher unemployment and lower inflation.
d. higher unemployment and higher inflation.

ANSWER: b

26. Economic models
a. are people who act out the behavior of firms and households so that economists can study this behavior.
b. are usually detailed replications of reality.
c. incorporate simplifying assumptions that often contradict reality, but also help economists better understand reality.
d. are useful to researchers but not to teachers because economic models omit many details of the real-world economy.

ANSWER: c

27. Which of the following statements about the circular-flow diagram is correct?
a. One must imagine that the economy operates without money in order to make sense of the diagram.
b. The diagram leaves out details that are not essential for understanding the economic transactions that occur between households and firms.
c. The government cannot be excluded as a decision maker in a circular-flow diagram.
d. All of the above are correct.

ANSWER: b

28. In the circular-flow diagram, firms produce
a. goods and services using factors of production.
b. output using inputs.
c. factors of production using goods and services.
d. Both (a) and (b) are correct.

ANSWER: d

29. In the simple circular-flow diagram, households
a. are the only decision makers.
b. own the factors of production.
c. are buyers of inputs.
d. consume only some of the goods and services that firms produce.

ANSWER: b
30. Which markets are represented in the simple circular-flow diagram?
   a. markets for goods and services and markets for financial assets
   b. markets for factors of production and markets for financial assets
   c. markets for goods and services and markets for factors of production
   d. markets for goods and services and markets for imports and exports
   
   ANSWER: c

31. Which of the following transactions does not take place in the markets for factors of production in the circular-flow diagram?
   a. a landowner leases land to a farmer
   b. a farmer hires a teenager to help with harvest
   c. a construction company rents trucks for its business
   d. an household buys corn for dinner
   
   ANSWER: d

32. In the circular-flow diagram,
   a. taxes flow from households to firms, and transfer payments flow from firms to households.
   b. income payments flow from firms to households, and sales revenue flows from households to firms.
   c. resources flow from firms to households, and goods and services flow from households to firms.
   d. inputs and outputs flow in the same direction as the flow of dollars, from firms to households.
   
   ANSWER: b

33. The production possibilities frontier is a graph that shows the various combinations of output that an economy can possibly produce given the available factors of production and
   a. society’s preferences.
   b. the available production technology.
   c. a fair distribution of the output.
   d. the available demand for the output.
   
   ANSWER: b

34. When constructing a production possibilities frontier, which of the following assumptions is not made?
   a. The economy produces only two goods or two types of goods.
   b. Firms produce goods using factors of production.
   c. The technology available to firms is given.
   d. The quantities of the factors of production that are available are increasing over the relevant time period.
   
   ANSWER: d

35. Any point on a country's production possibilities frontier represents a combination of two goods that an economy
a. will never be able to produce.
b. can produce using all available resources and technology.
c. can produce using some portion, but not all, of its resources and technology.
d. may be able to produce in the future with more resources and/or superior technology.

ANSWER: b

36. Which of the following is a correct statement about production possibilities frontiers?
   a. An economy can produce only on the production possibilities frontier.
   b. An economy can produce at any point inside or outside a production possibilities frontier.
   c. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
   d. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

ANSWER: c

37. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that
   a. the nation is producing beyond its capacity, so inflation will occur.
   b. the nation is not using all available resources or is using inferior technology or both.
   c. the nation is producing an efficient combination of goods.
   d. there will be a large opportunity cost if the nation tries to increase production of any good.

ANSWER: b

38. The bowed shape of the production possibilities frontier can be explained by the fact that
   a. all resources are scarce.
   b. economic growth is always occurring.
   c. the opportunity cost of one good in terms of the other depends on how much of each good the economy is producing.
   d. the only way to get more of one good is to get less of the other.

ANSWER: c

The following table contains some production possibilities for an economy for a given year:
Table 1

<table>
<thead>
<tr>
<th>Tennis Rackets</th>
<th>Tennis Balls</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>8000</td>
</tr>
<tr>
<td>200</td>
<td>6500</td>
</tr>
<tr>
<td>300</td>
<td>x</td>
</tr>
</tbody>
</table>

39. Refer to Table 1. If the production possibilities frontier is bowed outward, then "x" could be
   a. 6000.
   b. 5500.
   c. 5000.
   d. 4500.
The following table is the Production Possibilities for Picnicland:

Table 2

<table>
<thead>
<tr>
<th>Hotdogs</th>
<th>Burgers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1800</td>
<td>0</td>
</tr>
<tr>
<td>1350</td>
<td>450</td>
</tr>
<tr>
<td>900</td>
<td>750</td>
</tr>
<tr>
<td>450</td>
<td>975</td>
</tr>
<tr>
<td>0</td>
<td>1125</td>
</tr>
</tbody>
</table>

40. Refer to Table 2 above. What is the opportunity cost to Picnicland of increasing the production of hotdogs from 450 to 900?
   a. 150 burgers  
   b. 225 burgers  
   c. 300 burgers  
   d. 450 burgers

ANSWER: b

41. Refer to Table 2. What is the opportunity cost to Picnicland of increasing the production of burgers from 450 to 750?
   a. 150 hotdogs  
   b. 225 hotdogs  
   c. 300 hotdogs  
   d. 450 hotdogs

ANSWER: d

Figure 1
42. Refer to Figure 1. Efficient production is represented by which point(s)?  
   a. A, B  
   b. A, B, D  
   c. A, B, C  
   d. C  
   
   ANSWER: a

43. Refer to Figure 1. Inefficient production is represented by which point(s)?  
   a. A, B  
   b. C  
   c. C, D  
   d. D  
   
   ANSWER: d

44. Refer to Figure 1. The opportunity cost of obtaining 40 additional dryers by moving from point D to point C is  
   a. 0 washers.  
   b. 20 washers.  
   c. 40 washers.  
   d. None of the above; the economy cannot move from point D to point C.  
   
   ANSWER: d

45. Refer to Figure 1. The opportunity cost of obtaining 20 additional dryers by moving from point D to point A is  
   a. 0 washers.  
   b. 20 washers.  
   c. 40 washers.  
   d. None of the above; the economy cannot move from point D to point A.  
   
   ANSWER: a
46. Refer to Figure 2, Panel (a). The opportunity cost of one sofa is highest when the economy produces
a. 0 sofas.
b. 12 sofas.
c. 20 sofas.
d. 24 sofas.

ANSWER: d

47. Refer to Figure 2, Panel (a) and Panel (b). A shift of the economy’s production possibilities frontier from Panel (a) to Panel (b) could be caused by
a. unemployment.
b. an improvement in sofa production technology.
c. an improvement in tractor production technology.
d. an improvement in both sofa and tractor production technology.

ANSWER: c

48. Refer to Figure 2, Panel (a) and Panel (b). Which of the following is not a result of the shift of the economy’s production possibilities frontier from Panel (a) to Panel (b)?
a. The tradeoff between the production of tractors and sofas changes.
b. Production of 2 tractors and 10 sofas becomes efficient.
c. Production of 6 tractors and 14 sofas becomes possible.
d. The opportunity cost of a sofa is higher at all levels of sofa production.

ANSWER: b

49. Which of the following would likely be studied by a microeconomist rather than a macroeconomist?
   a. the effect of foreign direct investment on economic growth
   b. the effect of a sales tax on the cigarette industry
   c. the effect of an investment tax credit on the economy’s capital stock
   d. the effect of a war on government spending

ANSWER: b

50. Which of the following statements is correct about the roles of economists?
   a. Economists are best viewed as policy advisers.
   b. Economists are best viewed as scientists.
   c. In trying to explain the world, economists are policy advisers; in trying to improve the world, they are scientists.
   d. In trying to explain the world, economists are scientists; in trying to improve the world, they are policy advisers.

ANSWER: d

51. Which of the following is an example of a positive, as opposed to normative, statement?
   a. Inflation is more harmful to the economy than unemployment is.
   b. If welfare payments increase, the world will be a better place.
   c. Prices rise when the government prints too much money.
   d. When public policies are evaluated, the benefits to the economy of improved equality should be considered more important than the costs of reduced efficiency.

ANSWER: c

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

<table>
<thead>
<tr>
<th></th>
<th>Labor Hours Needed to Make 1 Unit of</th>
<th>Number of Units Produced in 24 Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cheese</td>
<td>Bread</td>
</tr>
<tr>
<td>England</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

52. Refer to Table 3. Assume that England and Spain each has 24 labor hours available. If each country divides its time equally between the production of cheese and bread, then total production is
   a. 10 units of cheese and 6 units of bread.
   b. 25 units of cheese and 7.5 units of bread.
   c. 20 units of cheese and 12 units of bread.
   d. 12 units of cheese and 8 units of bread.

ANSWER: a
53. Refer to Table 3. Which of the following combinations of cheese and bread could Spain produce in 24 hours?
   a. 4 units of cheese and 3 units of bread.
   b. 6 units of cheese and 1 units of bread.
   c. 7 units of cheese and 1.5 units of bread.
   d. 3 units of cheese and 3 units of bread.

   ANSWER: b

54. Refer to Table 3. Which of the following combinations of cheese and bread could England not produce in 24 hours?
   a. 5 units of cheese and 3 units of bread.
   b. 6 units of cheese and 4 units of bread.
   c. 8 units of cheese and 3 units of bread.
   d. 7 units of cheese and 2 units of bread.

   ANSWER: c

55. Refer to Table 3. We could use the information in the table to draw a production possibilities frontier for England and a second production possibilities frontier for Spain. If we were to do this, measuring cheese along the horizontal axis, then
   a. the slope of England’s production possibilities frontier would be -0.67 and the slope of Spain’s production possibilities frontier would be -0.5.
   b. the slope of England’s production possibilities frontier would be -1.5 and the slope of Spain’s production possibilities frontier would be -2.
   c. the slope of England’s production possibilities frontier would be -0.75 and the slope of Spain’s production possibilities frontier would be -1.
   d. the slope of England’s production possibilities frontier would be -2 and the slope of Spain’s production possibilities frontier would be -0.5.

   ANSWER: a

56. Ken and Traci are two woodworkers who both make tables and chairs. In one month, Ken can make 3 tables or 18 chairs, whereas Traci can make 8 tables or 24 chairs. Given this, we know that the opportunity cost of 1 chair is
   a. 1/6 table for Ken and 1/3 table for Traci.
   b. 1/6 table for Ken and 3 tables for Traci.
   c. 6 tables for Ken and 1/3 table for Traci.
   d. 6 tables for Ken and 3 tables for Traci.

   ANSWER: a

57. Absolute advantage is found by comparing different producers’
   a. opportunity costs.
   b. payments to land, labor, and capital.
   c. input requirements per unit of output.
   d. locational and logistical circumstances.
58. The producer that requires a smaller quantity of inputs to produce a certain amount of a good, relative to the quantities of inputs required by other producers to produce the same amount of that good, a. has a low opportunity cost of producing that good, relative to the opportunity costs of other producers.
b. has a comparative advantage in the production of that good.
c. has an absolute advantage in the production of that good.
d. should be the only producer of that good.

ANSWER: c

59. Travis can mow a lawn in two hours or he can trim a tree in one hour. Ricardo can mow a lawn in three hours or he can trim a tree in two hours.
 a. Travis has an absolute advantage over Ricardo in trimming trees.
b. Travis has a comparative advantage over Ricardo in mowing lawns.
c. Ricardo has a comparative advantage over Travis in trimming trees.
d. All of the above are correct.

ANSWER: a

60. Suppose Susan can wash three windows per hour or she can iron six shirts per hour. Paul can wash two windows per hour or he can iron five shirts per hour.
 a. Susan has an absolute advantage over Paul in washing windows.
b. Susan has a comparative advantage over Paul in washing windows.
c. Paul has a comparative advantage over Susan in ironing shirts.
d. All of the above are correct.

ANSWER: d

61. Suppose Jim and Tom can both produce two goods: baseball bats and hockey sticks. Which of the following is not possible?
 a. Jim has an absolute advantage in the production of baseball bats and in the production of hockey sticks.
b. Jim has an absolute advantage in the production of baseball bats and a comparative advantage in the production of hockey sticks.
c. Jim has an absolute advantage in the production of hockey sticks and a comparative advantage in the production of baseball bats.
d. Jim has a comparative advantage in the production of baseball bats and in the production of hockey sticks.

ANSWER: d

62. Canada and the U.S. both produce wheat and computer software. Canada is said to have the comparative advantage in producing wheat if
 a. Canada requires fewer resources than the U.S. to produce a bushel of wheat.
b. the opportunity cost of producing a bushel of wheat is lower for Canada than it is for the U.S.
c. the opportunity cost of producing a bushel of wheat is lower for the U.S. than it is for Canada.
d. the U.S. has an absolute advantage over Canada in producing computer software.

ANSWER:   b

63. Both Dave and Caroline produce sweaters and socks. If Dave’s opportunity cost of 1 sweater is 3 socks and Caroline’s opportunity cost of 1 sweater is 5 socks, then
a. Dave has a comparative advantage in the production of sweaters.
b. Caroline has a comparative advantage in the production of sweaters.
c. Dave has a comparative advantage in the production of socks.
d. Dave has a comparative advantage in the production of both sweaters and socks.

ANSWER:   a

64. Which of the following statements about comparative advantage is not true?
a. Comparative advantage is determined by which person or group of persons can produce a given quantity of a good using the fewest resources.
b. The principle of comparative advantage applies to countries as well as to individuals.
c. Economists use the principle of comparative advantage to emphasize the potential benefits of free trade.
d. A country may have a comparative advantage in producing a good, even though it lacks an absolute advantage in producing that good.

ANSWER:   a

65. Suppose that a worker in Cornland can grow either 40 bushels of corn or 10 bushels of oats per year, and a worker in Oatland can grow either 20 bushels of corn or 5 bushels of oats per year. There are 20 workers in Cornland and 20 workers in Oatland. Which of the following statements is true?
a. Both countries could gain from trade with each other.
b. Neither country could gain from trade with each other because Cornland has an absolute advantage in both goods.
c. Neither country could gain from trade with each other because neither one has a comparative advantage.
d. Oatland could gain from trade between the two countries, but Cornland definitely would lose.

ANSWER:   c
Assume that Jamaica and Norway can switch between producing coolers and producing radios at a constant rate. The following table shows the number of coolers or number of radios each country can produce in one day.

<table>
<thead>
<tr>
<th></th>
<th>Output Produced in One Day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coolers</td>
</tr>
<tr>
<td>Jamaica</td>
<td>12</td>
</tr>
<tr>
<td>Norway</td>
<td>24</td>
</tr>
</tbody>
</table>

Refer to Table 4 for questions 66 through 74.

66. Jamaica’s opportunity cost of one cooler is
   a. 0.5 radios, and Norway’s opportunity cost of one cooler is 0.125 radios.
   b. 0.5 radios, and Norway’s opportunity cost of one cooler is 8 radios.
   c. 2 radios, and Norway’s opportunity cost of one cooler is 0.125 radios.
   d. 2 radios, and Norway’s opportunity cost of one cooler is 8 radios.

   ANSWER: a

67. Suppose Jamaica decides to increase its production of radios by 12. What is the opportunity cost of this decision?
   a. 3 coolers
   b. 6 coolers
   c. 12 coolers
   d. 24 coolers

   ANSWER: d

68. Jamaica has an absolute advantage in the production of
   a. coolers and Norway has an absolute advantage in the production of radios.
   b. radios and Norway has an absolute advantage in the production of coolers.
   c. both goods and Norway has an absolute advantage in the production of neither good.
   d. neither good and Norway has an absolute advantage in the production of both goods.

   ANSWER: b

69. Jamaica has a comparative advantage in the production of
   a. coolers and Norway has a comparative advantage in the production of radios.
   b. radios and Norway has a comparative advantage in the production of coolers.
   c. both goods and Norway has a comparative advantage in the production of neither good.
   d. neither good and Norway has a comparative advantage in the production of both goods.

   ANSWER: b
70. Jamaica should specialize in the production of  
   a. coolers and Norway should specialize in the production of radios.  
   b. radios and Norway should specialize in the production of coolers.  
   c. both goods and Norway should specialize in the production of neither good.  
   d. neither good and Norway should specialize in the production of both goods.  

   ANSWER:  b

71. Assume that Jamaica and Norway each has 4 days available for production. Originally, each country  
   divided its time equally between the production of coolers and radios. Now, each country spends all its  
   time producing the good in which it has a comparative advantage. As a result, the total output of coolers  
   increased by  
   a. 12.  
   b. 24.  
   c. 36.  
   d. 48.  

   ANSWER:  b

72. Assume that Jamaica and Norway each has 4 days available for production. Originally, each country  
   divided its time equally between the production of coolers and radios. Now, each country spends all its  
   time producing the good in which it has a comparative advantage. As a result, the total output of radios  
   increased by  
   a. 3.  
   b. 6.  
   c. 9.  
   d. 12.  

   ANSWER:  b

73. At which of the following prices would both Jamaica and Norway gain from trade with each other?  
   a. 1 radio for 1 cooler  
   b. 1 radio for 4 coolers  
   c. 1 radio for 10 coolers  
   d. Jamaica and Norway would both gain from trade at all of the above prices.  

   ANSWER:  b

74. Jamaica and Norway would not be able to gain from trade if Norway's opportunity cost of one radio  
   changed to  
   a. 0 coolers.  
   b. 1 cooler.  
   c. 2 coolers.  
   d. Jamaica and Norway can always gain from trade regardless of their opportunity costs.  

   ANSWER:  c
Refer to Table 5 for questions 75 through 82.

75. What is Antigua’s opportunity cost of one towel?
   a. 3/5 umbrellas
   b. 2/3 umbrellas
   c. 3/2 umbrellas
   d. 5/3 umbrellas

   ANSWER: a

76. What is Antigua’s opportunity cost of one umbrella?
   a. 3/5 towels
   b. 2/3 towels
   c. 3/2 towels
   d. 5/3 towels

   ANSWER: d

77. What is Barbuda’s opportunity cost of one towel?
   a. 3/5 umbrellas
   b. 2/3 umbrellas
   c. 3/2 umbrellas
   d. 5/3 umbrellas

   ANSWER: c

78. What is Barbuda’s opportunity cost of one umbrella?
   a. 3/5 towels
   b. 2/3 towels
   c. 3/2 towels
   d. 5/3 towels

   ANSWER: b

79. Antigua has an absolute advantage in the production of
   a. towels and Barbuda has an absolute advantage in the production of umbrellas.
   b. umbrellas and Barbuda has an absolute advantage in the production of towels.
   c. both goods and Barbuda has an absolute advantage in the production of neither good.
d. neither good and Barbuda has an absolute advantage in the production of both goods.

ANSWER: a

80. Antigua has a comparative advantage in the production of
a. towels and Barbuda has a comparative advantage in the production of umbrellas.
b. umbrellas and Barbuda has a comparative advantage in the production of towels.
c. both goods and Barbuda has a comparative advantage in the production of neither good.
d. neither good and Barbuda has a comparative advantage in the production of both goods.

ANSWER: a

81. If Antigua and Barbuda decide to trade with each other, Antigua should specialize in the production of
a. towels and Barbuda should specialize in the production of umbrellas.
b. umbrellas and Barbuda should specialize in the production of towels.
c. both goods and Barbuda should specialize in the production of neither good.
d. neither good and Barbuda should specialize in the production of both goods.

ANSWER: a

82. Assume that Antigua and Barbuda each has 60 minutes available. If each island spends all its time producing the good in which it has a comparative advantage, then total production is
a. 4 towels and 3 umbrellas.
b. 5 towels and 6 umbrellas.
c. 8 towels and 10 umbrellas.
d. 9 towels and 9 umbrellas.

ANSWER: b