kk

1. A country produces computers and rice. If resources are fully employed and there is technological progress only in the production of rice, the opportunity costs of producing computers and rice will change in which of the following ways?

(A)

Opportunity Cost of Computers	Opportunity Cost of Rice
Increase	Increase

(B) ✓

Opportunity Cost of Computers	Opportunity Cost of Rice
Increase	Decrease

(C)

Opportunity Cost of Computers	Opportunity Cost of Rice
No change	Decrease

(D)

Opportunity Cost of Computers	Opportunity Cost of Rice
Decrease	Increase

(E)

Opportunity Cost of Computers	Opportunity Cost of Rice
Decrease	Decrease

2. Cindy and Martin both sew t-shirts in a small factory. Using the same resources, Martin can sew twelve t-shirts and Cindy can sew nine t-shirts in one day. Which of the following can be concluded from the given information?

kk

(A) Martin has a higher opportunity cost of sewing t-shirts than Cindy does.

(B) Cindy has a comparative advantage in sewing t-shirts.

(C) Martin has a comparative advantage in sewing t-shirts.

(D) Martin has an absolute advantage in sewing t-shirts. ✓

(E) Cindy has an absolute advantage in sewing t-shirts.

3. Both Amy and Brad produce and consume apple pie and ice cream. In one hour, Brad makes five apple pies or ten gallons of ice cream while Amy makes fifteen apple pies or fifteen gallons of ice cream. Based on the above information, one can correctly conclude that

(A) Brad has an absolute advantage in making ice cream and will sell ice cream to Amy

(B) Brad has a comparative advantage in making ice cream and will sell ice cream to Amy ✓

(C) Brad does not have a comparative advantage in making either good and will not trade with Amy

(D) Brad has an absolute advantage in making apple pies but a comparative advantage in making ice cream

(E) Brad's opportunity cost of making ice cream is higher than Amy's

4.

	Brazil	Spain
Corn	2 hours of labor	4 hours of labor
Shoes	8 hours of labor	12 hours of labor

The table above shows the amount of labor required to produce a unit of corn and a unit of shoes in Brazil and Spain. If both countries have equal numbers of workers, what pattern of international trade between Brazil and Spain is most likely to emerge?

(A) Brazil will export both corn and shoes.

(B) Spain will export both corn and shoes.

(C) No mutually beneficial trade can occur.

(D) Brazil will export corn and import shoes. ✓

(E) Brazil will import corn and export shoes.

kk

5. The table provided shows the number of labor hours required to produce a cell phone or a unit of lumber in Estonia and in Finland.



	Cell Phone	**Unit of Lumber**
Estonia	20 hours	5 hours
Finland	20 hours	4 hours

Based on the information in the table, which of the following is true?

(A) Estonia has a comparative advantage in producing lumber.

(B) Finland has a comparative advantage in producing cell phones.

(C) Finland has an absolute advantage in producing lumber. ✓

(D) Estonia has both the absolute and comparative advantages in producing lumber.

(E) Neither country has a comparative advantage in producing cell phones.

6. A professor hires two aides, assigning them the tasks of reading student papers and of typing lecture notes on a computer. One of the aides, Ben, can read 1 page of a student paper per minute or type 50 words of lecture notes per minute, and the other aide, Ann, can read 3 pages of a student paper per minute or type 60 words of lecture notes per minute.

Which of the following statements is true?

(A) Ann has a comparative advantage in reading student papers, and Ben has a comparative advantage in typing lecture notes. ✓

(B) Ann has an absolute advantage in reading student papers, and Ben has an absolute advantage in typing lecture notes.

(C) Ben has a comparative advantage in reading student papers, and Ann has a comparative advantage in typing lecture notes.

(D) Ben has a comparative advantage in both reading student papers and typing lecture notes.

(E) Ben has an absolute advantage in both reading student papers and typing lecture notes.

7. A linear production possibilities curve indicates which of the following?

kk

(A) Constant opportunity costs ✓

(B) Decreasing opportunity costs

(C) Increasing opportunity costs

(D) Diminishing marginal returns

(E) Labor-intensive production

8. A farmer in Country A can harvest 20 bushels of wheat or 10 bushels of corn in a day, while a farmer in Country B can harvest 8 bushels of wheat or 8 bushels of corn in a day. If Country A and Country B specialize and trade, Country A will

(A) export wheat and import corn ✓

(B) export corn and import wheat

(C) export both wheat and corn

(D) import both wheat and corn

(E) benefit more from trade than will Country B

9.

Country	Opportunity Cost of 1 Ton of Apples	Opportunity Cost of 1 Ton of Oranges
X	1 ton of oranges	1 ton of apples
Y	2 tons of oranges	0.5 ton of apples

The table above shows the opportunity costs of producing apples and oranges in Countries X and Y. Which of the following can be concluded based on the data given in the table?

(A) Country Y has an absolute advantage in producing both goods.

(B) Country Y has a comparative advantage in producing both goods.

(C) Country X has an absolute advantage in producing both goods.

(D) Country X has a comparative advantage in producing oranges.

(E) Country X has a comparative advantage in producing apples. ✓

kk

10.

UNITS OF MANUFACTURED GOODS AND SERVICE GOODS PRODUCED USING ONE HOUR OF LABOR

Country	Manufactured Goods	Service Goods
A	100 units	300 units
B	75 units	150 units

According to the information in the table above, which of the following statements is true if both countries have the same number of workers?

(A) Country A has both an absolute and a comparative advantage in manufactured goods.

(B) Country A has an absolute advantage in manufactured goods but a comparative advantage in service goods. ✓

(C) Country B has a comparative advantage in service goods but no absolute advantage in either good.

(D) Country A has an absolute advantage in service goods but a comparative advantage in manufactured goods.

(E) Country B has an absolute advantage in manufactured goods, but without more information, it is not possible to tell in which product it has a comparative advantage.

11. Dana and Robin produce smoothies and pizza. In one hour Dana can make 20 smoothies or 10 pizzas. In one hour Robin can make 18 smoothies or 6 pizzas. Which of the following statements is true?

(A) Robin has an absolute advantage in making smoothies and a comparative advantage in making pizzas.

(B) Robin has both an absolute advantage and a comparative advantage in making pizzas.

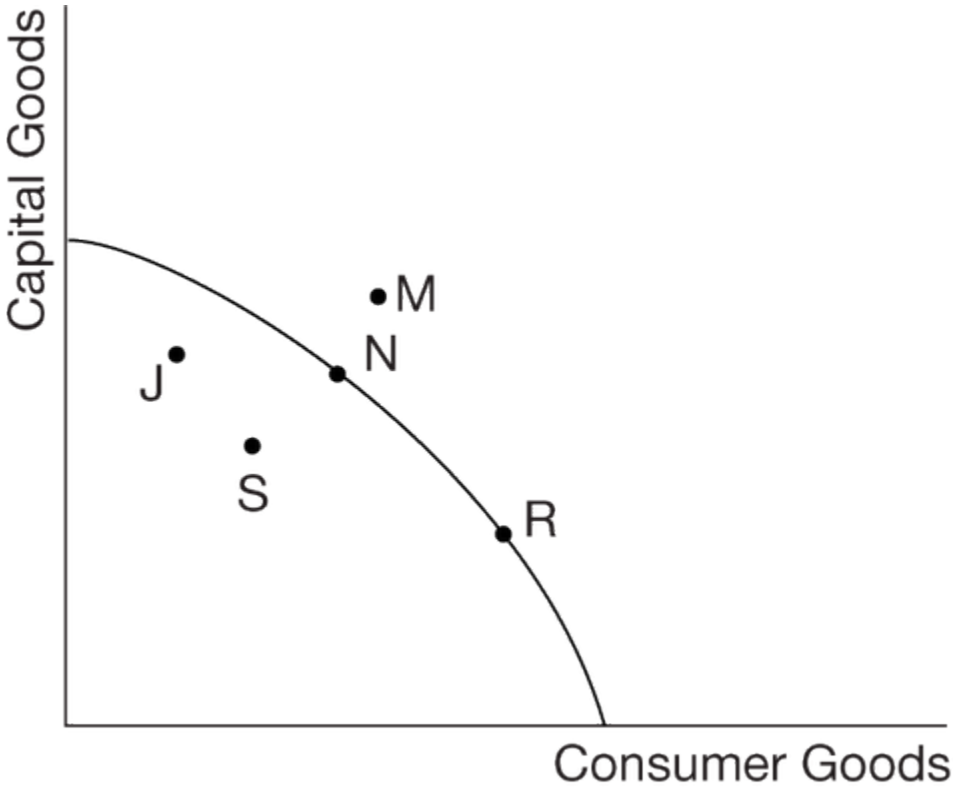
(C) Dana has a comparative advantage in making both smoothies and pizzas.

(D) Dana has a comparative advantage in making pizzas, and Robin has a comparative advantage in making smoothies. ✓

(E) Dana has a comparative advantage in making smoothies, and Robin has a comparative advantage in making pizzas.

kk

12.



Of the feasible and efficient points on the production possibilities curve (PPC) above, producing at which point will lead to the most economic growth in the future?

(A) Point M

(B) Point N ✓

(C) Point R

(D) Point J

(E) Point S

13. Where on a graph of a production possibilities curve would a point showing that an economy is using its resources efficiently be located?

(A) On the production possibilities curve ✓

(B) Inside the production possibilities curve

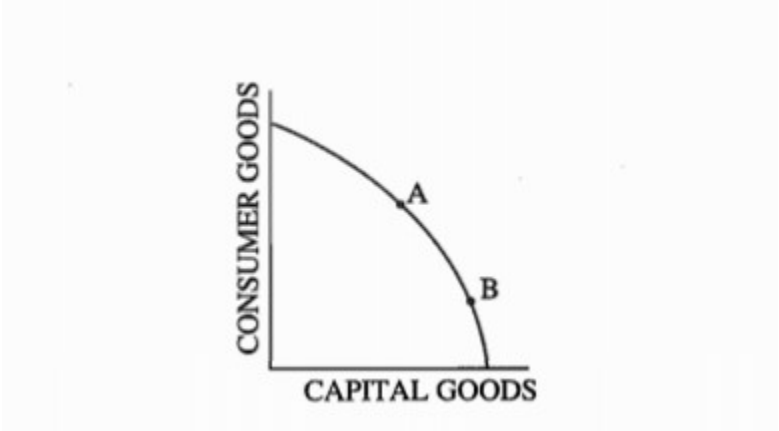
(C) Beyond the production possibilities curve

(D) On the y-axis and below the production possibilities curve

(E) On the x-axis and below the production possibilities curve

kk

14.



The diagram above shows an economy's current production possibilities curve for capital goods and consumer goods. If society chooses point B over point A, society is choosing

(A) more future consumption in exchange for less current consumption ✓

(B) more current capital goods in exchange for less future consumption

(C) more future and current consumption

(D) less future consumption in exchange for more current consumption

(E) less current capital goods in exchange for greater future consumption

15. The chart below shows the number of resource units the countries Gamma and Omega must use to produce one unit of food or one unit of clothing.

	Gamma	Omega
Food	10 resource units	5 resource units
Clothing	9 resource units	3 resource units

Which of the following statements is true according to the chart above?

(A) Trade should take place, with Gamma specializing in clothing production and Omega specializing in food production.

(B) Trade should take place, with Gamma specializing in food production and Omega specializing in clothing production. ✓

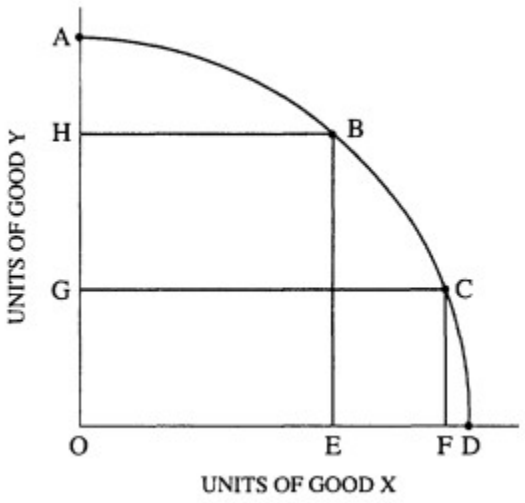
(C) Each country should devote half of its resources to food production and half to clothing production and not trade.

(D) Since Omega can produce both food and clothing using fewer resources than Gamma, it cannot benefit from trade with Gamma

(E) Since Gamma can produce both food and clothing using fewer resources than Omega, it cannot benefit trade with Omega.

kk

16.



The graph above shows an economy's production possibilities frontier for the production of two goods, X and Y. Assume that the economy is currently at point B. The opportunity cost of moving from point B to point C is

(A) AH units of good Y

(B) HG units of good Y ✓

(C) OG units of good Y

(D) EF units of good X

(E) OF units good X

17. Improvements in technology for producing all goods must result in

(A) an inward shift in the production possibilities curve

(B) an outward shift in the production possibilities curve ✓

(C) a flatter production possibilities curve

(D) a steeper production possibilities curve

(E) greater unemployment of labor

18. Which of the following statements regarding specialization and trade is true?

(A) With specialization and trade, a country's production possibilities curve shifts out, showing an increase in productive capacity.

(B) With specialization and trade, a country will produce a combination of goods beyond its production possibilities curve.

(C) To gain from trade, countries specialize in producing goods and services in which they have an absolute advantage.

(D) With specialization and trade, a country can consume beyond its production possibilities curve. ✓

(E) A country must have both the comparative and the absolute advantage in a product to specialize and gain from trade.

kk

19. An outward shift in the production possibilities curve of an economy can be caused be an increase in

(A) unemployment

(B) the labor force ✓

(C) inflation

(D) output

(E) demand

20. Which of the following explains why a production possibilities curve is often represented as concave (bowed out) from the origin?

(A) The law of demand

(B) The law of supply

(C) Constant returns to scale

(D) Decreasing opportunity cost

(E) Increasing opportunity cost ✓

21. Assume both Italy and Greece produce only two goods: wine and olive oil. If Italy holds a comparative advantage in the production of wine, then which of the following statements is NOT true?

(A) Italy must hold an absolute advantage in the production of wine. ✓

(B) Greece holds a comparative advantage in the production of olive oil.

(C) Italy's opportunity cost of producing one additional unit of wine is lower than Greece's.

(D) Greece's opportunity cost of producing one additional unit of olive oil is lower than Italy's.

(E) If trade is open between them, these countries have an incentive to trade.

22. Using the same amount of time and resources, Jack can assemble either 10 bikes or 5 computers, whereas Sam can assemble either 5 bikes or 5 computers. Based on the data, which of the following statements is correct?

(A) Sam has an absolute advantage in assembling bikes.

(B) Sam has an absolute advantage in assembling computers.

(C) Sam has a comparative advantage in assembling bikes.

(D) Jack has a comparative advantage in assembling bikes. ✓

(E) Jack has a comparative advantage in assembling both bikes and computers.

kk

23. The table below shows the number of hours it takes for Kim to install a computer or to paint a garage and for Maria to install a computer or to paint a garage.

	Kim	Maria
Install computer	2 hours	4 hours
Paint garage	10 hours	12 hours

If tasks are assigned according to comparative advantage, which of the following is true?

(A) Kim should perform both tasks.

(B) Maria should perform both tasks.

(C) Kim should install computers and Maria should paint garages. ✓

(D) Kim should paint garages and Maria should install computers.

(E) Kim and Maria should both install computers.

24. Assume that an economy produces televisions and shoes. Which of the following would cause the production possibilities curve for this economy to shift outward?

(A) An increase in the labor force ✓

(B) An increase in the prices of both goods

(C) An increase in the prices of resources used to produce both goods

(D) A decrease in the demand for shoes

(E) A change in consumers' tastes in favor of televisions

25. An economy produces two goods: X and Y. Its production possibilities curve is linear with the intercept on the Y axis at 1,000 units and the intercept on the X axis at 100 units. Which of the following statements is correct?

(A) There is an increasing opportunity cost of producing good X, beginning with 1 unit of X costing 0.1 unit of Y.

(B) There is an increasing opportunity cost of producing good Y but not of producing good X, which has a constant opportunity cost.

(C) There is a constant opportunity cost with each unit of good X costing 10 units of good Y. ✓

(D) There is a constant opportunity cost with 10 units of good X costing 1 unit of good Y.

(E) With a linear production possibilities curve, total production of goods X and Y will be the same at each point on the curve.

kk

26.

Good X (units)	Good Y (units)
0	100
20	95
40	85
60	65
80	35
100	0

The table above shows the maximum possible output combinations of good X and good Y that Microland can produce by using all of its available resources and technology. As the production of good X increases, what happens to the opportunity cost of producing good X?

(A) It decreases, because the production of good Y decreases by greater amounts.

(B) It decreases, because the production of good Y increases by smaller amounts.

(C) It remains constant, because the production of good X increases by the same amount.

(D) It increases, because the production of good Y decreases by greater amounts. ✓

(E) It increases, because the production of good Y increases by smaller amounts.

27. Movement along a production possibilities curve shows which of the following?

(A) The trade-offs society faces ✓

(B) The total amount of available resources

(C) The combination of inputs required for a given output

(D) The relationship between the price of an input and the quantity demanded

(E) The decrease in efficiency

28.

	Labor Hours Required to Produce	
	One Pair of Shoes	One Loaf of Bread
Mr. X	5 hours	1 hour
Ms. Y	2 hours	0.5 hour

According to the data above, if Mr. X and Ms. Y have the opportunity to trade, which of the following will be mutually beneficial?

kk

(A) Ms. Y sells shoes to and buys bread from Mr. X. ✓

(B) Ms. Y sells bread to and buys shoes from Mr. X.

(C) Ms. Y sells both bread and shoes to Mr. X.

(D) Ms. Y buys both bread and shoes from Mr. X.

(E) Ms. Y and Mr. X do not trade with each other.

29. A production possibilities curve can shift inward if there is

(A) an increase in productivity

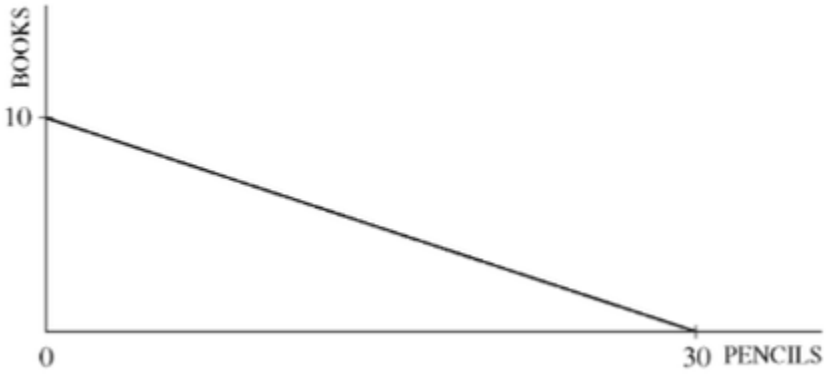
(B) an increase in unemployment

(C) an increase in the price of raw materials

(D) a misallocation of resources

(E) a natural disaster ✓

30.



Based on the production possibilities curve for books and pencils shown above, what is the opportunity cost of producing a book?

(A) 30 pencils

(B) 10 pencils

(C) 3 pencils ✓

(D) 1/3 of a pencil

(E) 1/10 of a pencil

kk

31.

Combination	Houses	Grain (in bushels)
A	0	1,000,000
B	1	950,000
C	2	850,000
D	3	700,000
E	4	400,000
F	5	0

The table above shows six possible combinations of houses and grain that a country can produce in a year using all currently available resources and technology. The opportunity cost of changing production from combination B to combination C is

(A) 1 house

(B) 2 houses

(C) 100,000 bushels of grain ✓

(D) 850,000 bushels of grain

(E) 950,000 bushels of grain

32. Two alternative production possibility frontiers for apples and wheat are shown in the figures below.

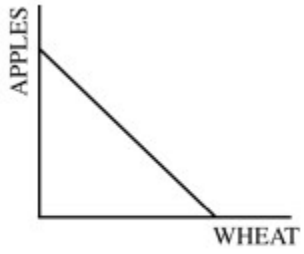


Figure 1

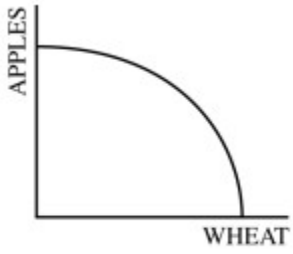


Figure 2

As more wheat is produced, how will the opportunity cost of producing wheat, as represented in Figures 1 and 2, be affected?

kk

(A)

Figure 1	Figure 2
Decrease	Increase

(B)

Figure 1	Figure 2
Increase	Decrease

(C) ✓

Figure 1	Figure 2
No change	Increase

(D)

Figure 1	Figure 2
No change	Decrease

(E)

Figure 1	Figure 2
Increase	No change

33. The table below represents points on an economy's current production possibilities curve.

Good X	Good Y
1,000	0
990	100
980	200
970	300

The opportunity cost of increasing the production of good Y from 0 to 200 is

kk

(A) 1,000 units of X
(B) 980 units of X
(C) 200 units of X
(D) 20 units of X ✓
(E) 5 units of X

34. An outward shift of a production possibilities curve can be caused by

(A) planting a more profitable farm crop
(B) improving technology ✓
(C) using idle resources
(D) changing consumer preferences
(E) increasing the minimum wage

The table below shows the total labor hours required to produce a unit of gold and the total labor hours required to produce a unit of sugar in Portugal and Spain, respectively.

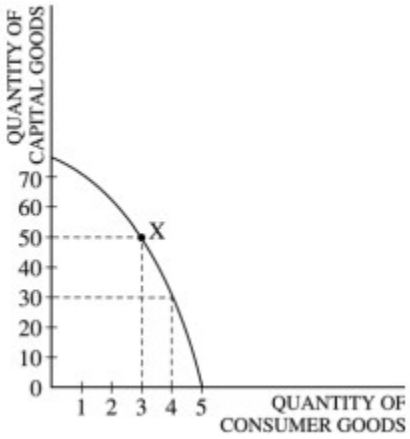
	Portugal	Spain
Gold	1 hour	2 hours
Sugar	4 hours	3 hours

35. Which country has an absolute advantage in sugar production?

(A) Neither Spain nor Portugal, because both require fewer labor hours to produce a unit of gold than to produce a unit of sugar.
(B) Spain, because the opportunity cost of sugar in terms of gold is lower.
(C) Spain, because it requires fewer total labor hours than Portugal to produce a unit of sugar. ✓
(D) Portugal, because it requires more total labor hours than Spain to produce a unit of sugar.
(E) Portugal, because it takes only a quarter of an hour to produce a unit of sugar.

kk

36.



According to the graph above, if a country is currently producing at point X, the opportunity cost of producing another consumer good is

(A) 20 capital goods ✓

(B) more than 20 capital goods

(C) fewer than 20 capital goods

(D) 20 consumer goods

(E) fewer than 20 consumer goods

Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. If the question prompts you to "Calculate," you must show how you arrived at your final answer.

Assume both Atlantis and Zanadu produce helmets and baseballs. Using equal amounts of resources, Atlantis can produce 100 helmets or 200 baseballs, whereas Zanadu can produce 100 helmets or 400 baseballs.

(a) Assume both Atlantis and Zanadu experience constant opportunity costs in producing helmets and baseballs. Draw a correctly labeled graph illustrating the production possibilities curves (PPCs) for Atlantis and Zanadu, showing helmets on the horizontal axis and baseballs on the vertical axis. Plot the numerical values provided above on your graph.

(b) Calculate the opportunity cost of one helmet for Atlantis. Show your work.

(c) Which country has an absolute advantage in the production of baseballs?

(d) Which country has a comparative advantage in the production of baseballs? Explain.

(e) If Atlantis and Zanadu specialize based on comparative advantage and trade, would they be able to gain from trade if the terms of trade are 1 helmet for 3 baseballs? Explain.

kk

37. Respond to all parts of the question.

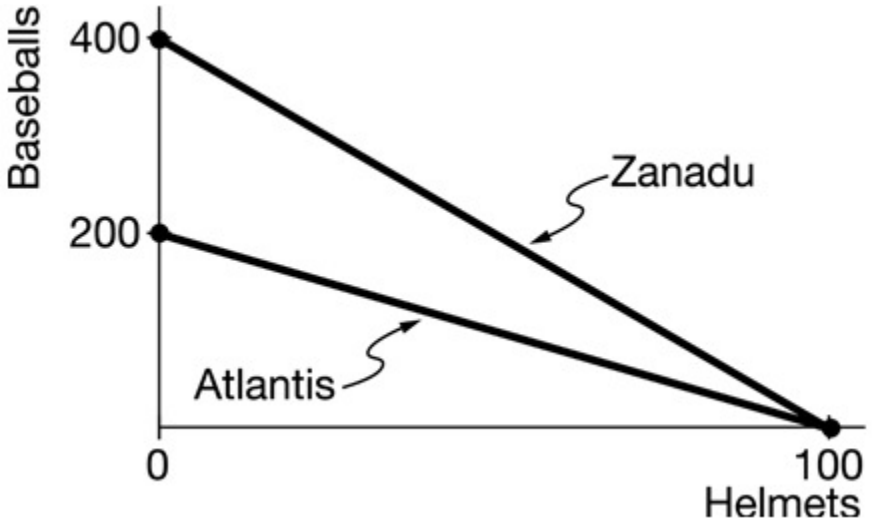
Please respond on separate paper, following directions from your teacher.

Part (a)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response includes a correctly labeled graph of the production possibilities curves for Atlantis and Zanadu with helmets on the horizontal axis and baseballs on the vertical axis and using the numerical values provided (see graph below).



Part (b)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response correctly calculates the opportunity cost of one helmet for Atlantis as 2 baseballs and shows in the work that the $\text{opportunity cost} = 200 \text{ baseballs}/100 \text{ helmets} = 2 \text{ baseballs per helmet}$

Part (c)

kk

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response states that Zanadu has an absolute advantage in the production of baseballs.

Part (d)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response indicates that Zanadu has a comparative advantage in the production of baseballs and explains that Zanadu has a lower opportunity cost of producing a baseball ($1/4$ of a helmet) than Atlantis's opportunity cost of producing a baseball ($1/2$ of a helmet).

Part (e)

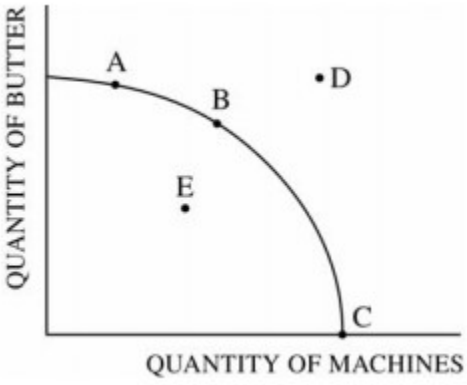
Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response correctly answers with "yes" and explains that the terms of trade fall between the opportunity costs of producing helmets in the two countries (i.e., between 2 baseballs in Atlantis and 4 baseballs in Zanadu).

kk

38.



The diagram above shows the production possibilities curve for Country Y. Which of the following statements is true?

(A) If Country Y is producing at point C, it is using all its resources efficiently. ✓

(B) The opportunity cost of producing more machines is constant.

(C) Producing at point C is the most preferable, because butter is a nondurable good.

(D) Country Y cannot produce at point E.

(E) The economy is not producing at its potential, since it is not producing at point D.

kk

*I*nclude correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. If the question prompts you to "Calculate," you must show how you arrived at your final answer.

The data provided below describe an ice-cream store's daily production possibilities for milkshakes and sundaes.

Milkshakes	0	20	40	60	80	100	120
Sundaes	210	200	180	150	110	60	0

(a) Draw a correctly labeled graph of the store's production possibilities curve (PPC) with milkshakes on the horizontal axis and sundaes on the vertical axis and label the endpoints using the numbers provided above.

(b) Is the opportunity cost of producing milkshakes increasing, decreasing, or constant? Explain using numbers in the table.

(c) The store is currently producing 80 milkshakes and 110 sundaes. Calculate the opportunity cost of increasing milkshake production from 80 to 100 milkshakes. Show your work.

(d) Would it be efficient for the store to produce 80 milkshakes and 150 sundaes? Explain using numbers in the table.

(e) Suppose the ice-cream store purchases a new machine that increases the output of milkshakes and sundaes. Show the effect of the change on the store's PPC on your graph in part (a).

39. Respond to all parts of the question.

Please respond on separate paper, following directions from your teacher.

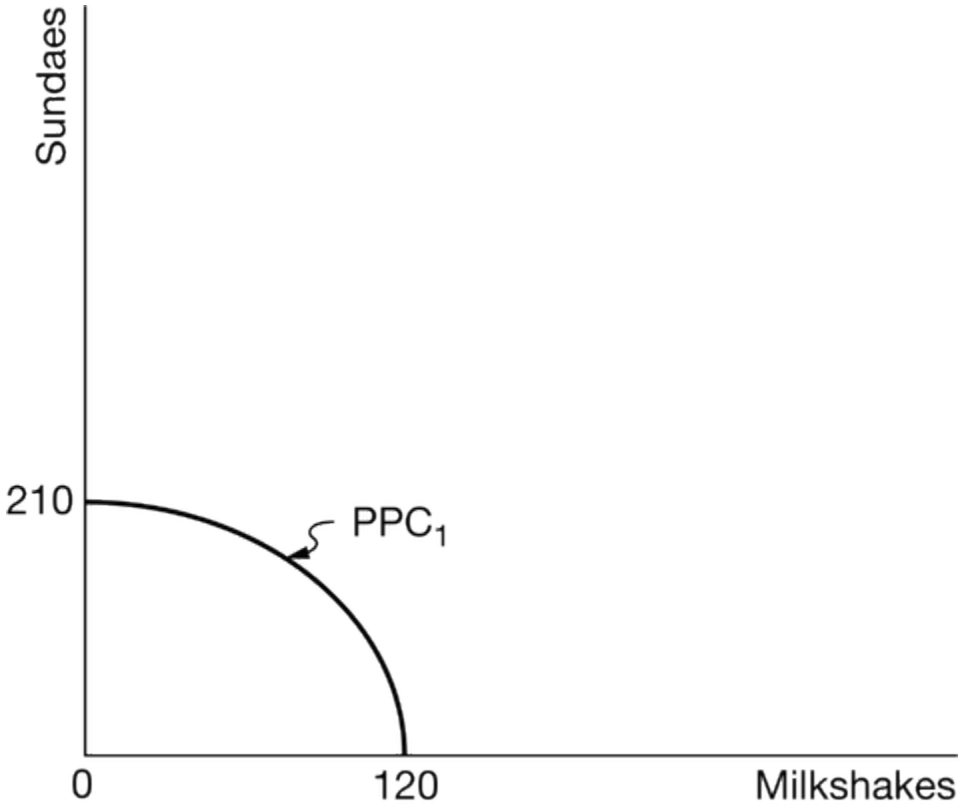
Part (a)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response draws a correctly labeled graph of the production possibilities curve (PPC) for the store with milkshakes on the horizontal axis and sundaes on the vertical axis and the quantities noted.

kk



Part (b)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response correctly states that the opportunity cost of producing milkshakes is increasing and explains that as the production of milkshakes increases by the same amount of 20 milkshakes, the production of sundaes decreases at an increasing rate. The first 20 milkshakes cost 10 sundaes. The last 20 milkshakes cost 60 sundaes. Therefore, the opportunity cost of producing milkshakes increases as more milkshakes are produced.

Part (c)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response calculates the opportunity cost as 50 sundaes and shows the work $(110 - 60 = 50)$.

kk

Part (d)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

0	1 ✓

The response states that the store cannot produce 80 milkshakes and 150 sundaes using its available resources and explains that it can produce 80 milkshakes and 110 sundaes or 60 milkshakes and 150 sundaes but not a larger combination of both products.

Part (e)

Select a point value to view scoring criteria, solutions, and/or examples and to score the response.

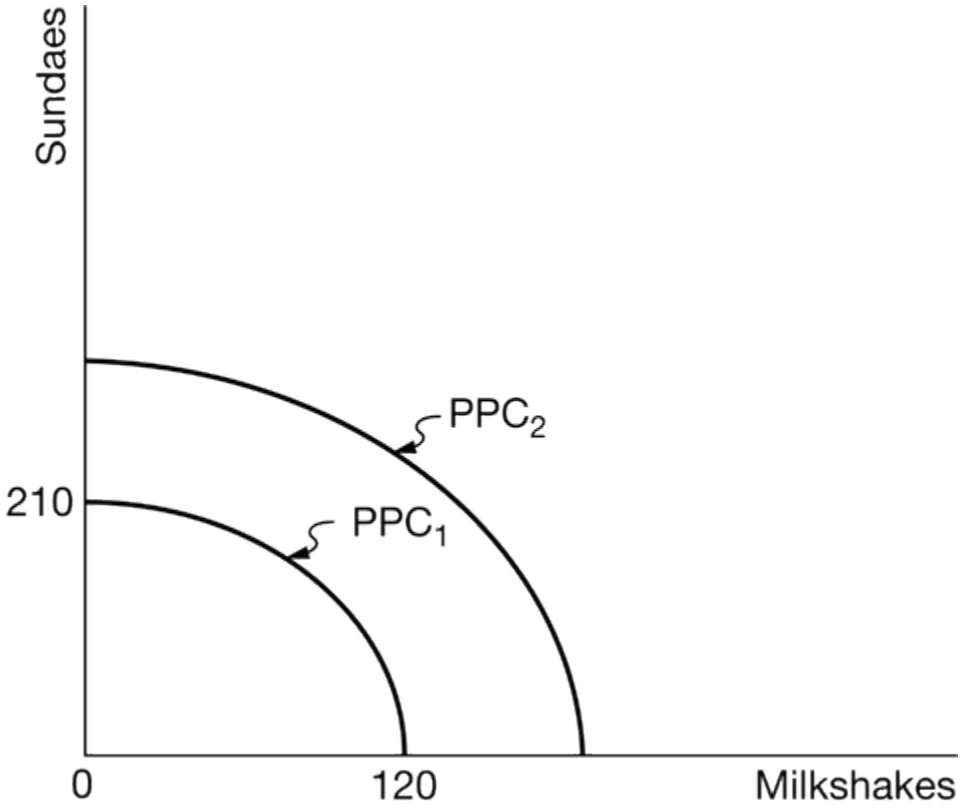
This point is dependent on drawing a correctly labeled graph of the store's (PPC in part (a).

0	1 ✓

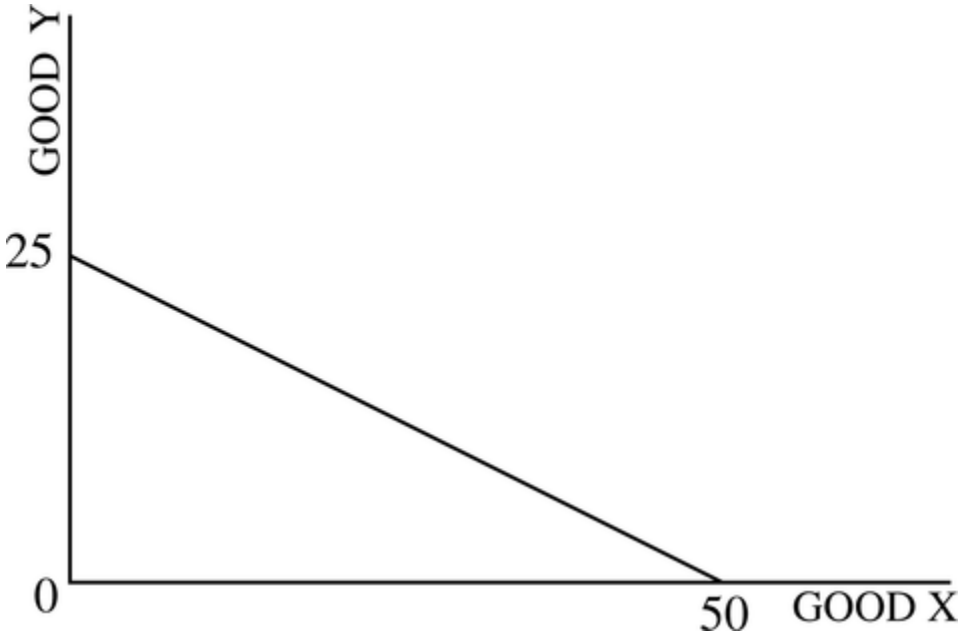
The response correctly shows the effect of the change with an outward shift of the store's PPC

(PPC_2) that shows increasing quantities of the two products.

kk



40.



According to the production possibilities curve above, which of the following is true?

kk

(A) The opportunity cost of producing another unit of good Y in terms of good X increases as more of good Y is produced.

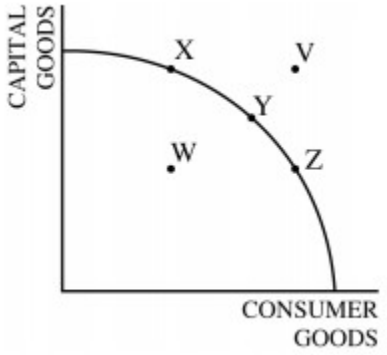
(B) The opportunity cost of producing another unit of good Y in terms of good X decreases as more of good Y is produced.

(C) The opportunity cost of producing another unit of good X in terms of good Y increases as more of good X is produced.

(D) The opportunity cost of producing another unit of good X in terms of good Y decreases as more of good X is produced.

(E) The opportunity cost of producing another unit of either good remains constant as the production of the other good increases. ✓

The following questions are based on the production possibilities curve depicted below.



41. Based on a comparison of points X, Y, and Z, the opportunity cost of an additional consumer good is

(A) highest at point X

(B) highest at point Y

(C) highest at point Z ✓

(D) lowest at point Y

(E) the same at points X, Y, and Z

42. Given the production possibilities curve above, which of the following represents a movement from efficiency to inefficiency?

(A) Point X to point W ✓

(B) Point X to point Z

(C) Point Y to point Z

(D) Point W to point Z

(E) Point V to point Y

43. Economic growth can be depicted using a production possibilities curve by which of the following?

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(A) A rightward shift of the curve ✓

(B) A movement upward on an existing curve

(C) A movement downward on an existing curve

(D) A movement from a point outside the curve to a point on the curve

(E) A movement from a point on the curve to a point inside the curve

44. Which of the following is true of an economy's production possibilities curve?

(A) It shows the combinations of any two resources that can be used to produce an efficient level of output.

(B) It shows the alternative combinations of goods that can be produced by fully employing scarce resources. ✓

(C) It must be a straight line when all resources are fully employed.

(D) It is bowed in (convex to the origin) because of changing levels of technology.

(E) It is bowed out (concave to the origin) when marginal opportunity costs are constant.

45. A production possibilities curve is bowed out, indicating increasing opportunity cost because of

(A) the law of demand

(B) the law of diminishing marginal utility

(C) the existence of unemployment

(D) differences in consumer tastes

(E) imperfect adaptability of resources to alternative uses ✓

46. If resources were perfectly substitutable in all activities, which of the following would be true?

(A) Output of all goods could be increased at zero opportunity cost.

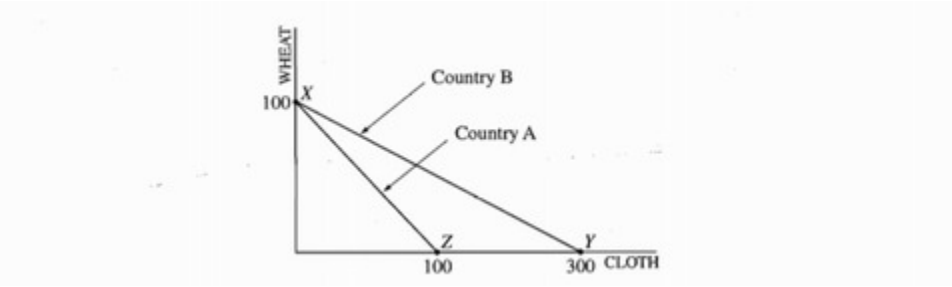
(B) The production possibilities curve would be a straight line. ✓

(C) Specialization and mutually beneficial trade would be impossible.

(D) No country or individual would have a comparative advantage in any activity.

(E) Scarcity of resources would be eliminated.

kk



Assume that Countries A and B have equal amounts of resources and identical technologies. Country A can produce 100 bushels of wheat or 100 yards of cloth or any combination, as shown by the line *XZ* in the figure above. Country B can produce 100 bushels of wheat or 300 yards of cloth or any combination, as shown by the line *XY* in the figure above.

a. Which country has an absolute advantage in the production of wheat and which has an absolute advantage in the production of cloth? Explain how you determined your answer.

b. Which country has a comparative advantage in the production of wheat and which has a comparative advantage in the production of cloth? Explain how you determined your answer.

c. With specialization and trade, which country will import wheat? Explain why.

d. Assume that the two countries trade, and that one bushel of wheat is exchanged for two yards of cloth. Explain why the country that imports wheat will gain from trade.

47. Respond to all parts of the question.

Please respond on separate paper, following directions from your teacher.

Part A

1 Point

- **1 -** for Wheat: neither country has an absolute advantage, identical outputs (with the same resource) Cloth: Country B, as it produces more output (with the same resources)

0	1 ✓

The student earns all of the following points:

- **1 -** for Wheat: neither country has an absolute advantage, identical outputs (with the same resource) Cloth: Country B, as it produces more output (with the same resources)

kk

Part B

2 Points

- **1 -** for Country A has comparative advantage in wheat; Country B in cloth
- **1 -** for shown opportunity costs; Country A give up 1 cloth for 1 wheat; Country B gives up 3 cloth for 1 wheat; relatively more expensive for Country B to produce wheat

0	1	2 ✓

The student earns all of the following points:

- **1 -** for Country A has comparative advantage in wheat; Country B in cloth
- **1 -** for shown opportunity costs; Country A give up 1 cloth for 1 wheat; Country B gives up 3 cloth for 1 wheat; relatively more expensive for Country B to produce wheat

Part C

1 Point

- **1 -** for Country B will import wheat because it has comparative advantage in cloth (and will specialize in cloth production, getting its wheat more cheaply via trade) Key point is comparative advantage

0	1 ✓

The student earns all of the following points:

- **1 -** for Country B will import wheat because it has comparative advantage in cloth (and will specialize in cloth production, getting its wheat more cheaply via trade) Key point is comparative advantage

Part D

1 Point

- **1 -** for country B, via trade a unit of wheat only costs 2 units of cloth, while by domestic production a unit of wheat would cost 3 units of cloth. Also the student may explain that trade increases B's consumption possibilities by making it possibly to consumer more of both goods

0	1 ✓

kk

The student earns all of the following points:

- **1 -** for country B, via trade a unit of wheat only costs 2 units of cloth, while by domestic production a unit of wheat would cost 3 units of cloth. Also the student may explain that trade increases B's consumption possibilities by making it possibly to consumer more of both goods

48.

	Palm Leaves	Coconuts
Robert	8	2
Frank	10	5

The table above shows the maximum number of palm leaves or coconuts that Robert and Frank can pick respectively in a single day. Which of the following is true?

(A) Robert has a comparative advantage in picking coconuts.

(B) Frank has a comparative advantage in picking palm leaves.

(C) Robert and Frank can both benefit from trade with each other if 1 coconut is traded for 1 palm leaf.

(D) Robert and Frank can both benefit from trade with each other if 1 coconut is traded for 3 palm leaves. ✓

(E) Robert and Frank can both benefit from trade with each other if 1 coconut is traded for 5 palm leaves.

49. Suppose that in one week Sam can knit 5 sweaters or make 4 blankets and Rob can knit 10 sweaters or make 6 blankets. Which of the following is true?

(A) Sam has an absolute advantage in making blankets.

(B) Sam has an absolute advantage in knitting sweaters.

(C) Sam has a comparative advantage in making blankets. ✓

(D) Sam has a comparative advantage in knitting sweaters.

(E) Sam has neither a comparative nor an absolute advantage in knitting sweaters or making blankets.

50. Assume an economy uses one input, labor, to produce two goods, X and Y, with constant opportunity cost. Which of the following would cause a parallel shift to the right of the production possibilities curve (PPC) ?

(A) An increase in the productivity of labor with respect to producing good X

(B) An increase in the amount of labor available for production ✓

(C) A reduction in the unemployment of labor

(D) An increase in the demand for good X and good Y

(E) A change in consumer tastes from good Y to good X

51. If nations specialize according to their comparative advantage and engage in international trade with each other, each nation can

kk

(A) produce outside its production possibilities curve

(B) consume outside its production possibilities curve ✓

(C) shift its production possibilities curve to the right

(D) become more self-sufficient

(E) produce more of all goods

52. A country can consume beyond its present production possibilities curve when it

(A) trades with other countries, thus taking advantages of different opportunity costs ✓

(B) reduces unemployment, thus increasing output

(C) experiences decreasing opportunity costs.

(D) faces an upward-sloping production possibilities curve

(E) faces a downward-sloping production possibilities curve

53. For an economy with a straight-line production possibilities curve, which of the following must be true?

I. The opportunity cost of producing another unit is constant.

II. Resources are completely adaptable to alternative uses.

III. Resources are used efficiently.

(A) I only

(B) II only

(C) III only

(D) I and II ✓

(E) II and III

54. In the country Beta it takes two hours of labor to produce a unit of tea and four hours of labor to produce a unit of bread. In the country Zeta it takes three hours of labor to produce a unit of tea and nine hours of labor to produce a unit of bread. Which of the following is true?

(A) Country Zeta has an absolute advantage in producing both tea and bread.

(B) Country Zeta has an absolute advantage and a comparative advantage in producing tea.

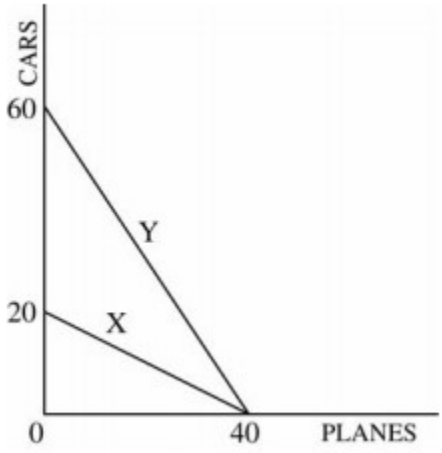
(C) Country Beta has an absolute advantage and a comparative advantage in producing tea.

(D) Country Beta has the lower opportunity cost in producing bread and therefore a comparative advantage in producing bread. ✓

(E) Country Beta, with trade, will export both tea and bread to country Zeta.

kk

55.



The diagram above shows the production possibilities curves for two countries, Country X and Country Y. Assume that both countries use equal amounts of resources in production. If the two countries engage in trade, both would be better off under which of the following conditions?

(A) Country X produced both cars and planes, because it has an absolute advantage in the production of both goods.

(B) Country Y produced both cars and planes, because it has a comparative advantage in the production of both goods.

(C) Country X specialized in the production of cars, because it has an absolute advantage in the production of cars.

(D) Country X specialized in the production of cars, because it has a comparative advantage in the production of cars.

(E) Country Y specialized in the production of cars, because it has a comparative advantage in the production of cars. ✓