Microeconomics

PART A

1. For Italy, the opportunity cost incurred when 6 cheeses are produced is 8 watches. For Switzerland, the opportunity cost incurred when 10 cheeses are produced is 50 watches. Which country has a comparative advantage in the production of cheese?
   A. Switzerland
   B. Italy
   C. Both have the comparative advantage in the production of cheese.
   D. Neither have the comparative advantage in the production of cheese.

2. Having an absolute advantage
   A. means specializing in the production of only one good.
   B. means having higher opportunity costs than the trading partner.
   C. means being able to produce more of a product with same amount of resources than another producer.
   D. means having lower opportunity costs than the trading partner.

3. Justin decides to spend an additional hour working overtime rather than playing football with his friends. He earns $6 an hour for his hour's work. His opportunity cost is
   A. the $6 he earns
   B. the enjoyment he would have received playing football with his friends
   C. the $6 minus the enjoyment he would have received from playing football with his friends
   D. nothing since he would have received less than $6 worth of enjoyment from playing football

4. When a production possibilities frontier is bowed outward, as more of one good is produced, its opportunity cost
   A. increases
   B. decreases
   C. remains constant
   D. cannot be predicted

5. For a society, a good is not scarce if
   A. all members of society can have all they want of it
   B. at least one individual in society can obtain all he or she wants of the good
   C. firms are producing at full capacity
   D. those who have enough income can buy all they want of the good

6. Which of the following is true of households in the circular flow model?
   A. They own the factors of production.
   B. They choose the quantity of goods and services to buy.
   C. They interact in the factor markets and the goods market.
   D. All of the above are true.

7. Comparative advantage is found by
   A. comparing relative opportunity costs
   B. calculating the total cost of production
   C. comparing the productivity of one to that of another
   D. none of the above is correct

8. A point that lies outside the production possibility frontier
   A. is possible to attain if unemployment decreases
   B. will never be attained
   C. shows that no tradeoff is involved
   D. is not attainable with the nation's current resources and technology

9. Which of the following increases the quantity supplied of compact discs but does NOT increase the supply of compact discs?
   A. a decrease in the price of a compact disc
   B. an increase in the price of a compact disc
   C. a decrease in the number of suppliers of compact discs
   D. an increase in the price of resources used to produce compact discs

10. A production possibilities frontier will be linear and not bowed out if
   A. unemployment is zero
   B. resources are not allocated efficiently
   C. no tradeoffs exist
   D. the tradeoff between the two goods is always at a constant rate

11. An increase in the number of fast-food restaurants
   A. raises the price of fast-food meals.
   B. increases the demand for fast-food meals.
   C. increases the supply of fast food meals.
   D. increases the demand for substitutes for fast-food meals.

12. A movement along the supply curve as the price of the product changes is called a
   A. change in quantity supplied
   B. change in supply
   C. demand shift
   D. substitution effect

13. If a decrease in income increases the demand for a good, then the good is a
   A. normal good
   B. inferior good
   C. luxury good
   D. substitute good

14. Which of the following is NOT illustrated by the production possibilities frontier?
   A. efficiency
   B. opportunity costs
   C. equity
   D. tradeoffs

15. *Ceteris paribus* is a Latin phrase that literally means
    A. "other things being equal"
    B. "because of this"
    C. "to respond slowly to a change in price"
    D. "There's no such thing as a free lunch."

PART B

1. The principle of increasing opportunity cost is consistent with a production possibilities frontier that is
    A. a straight-line
    B. bowed-inward
    C. upward sloping
    D. bowed-outward

2. On a production possibilities graph, production is inefficient if
    A. the production point is inside the frontier
    B. the production point is outside the frontier
    C. the production point is on the frontier
    D. the production point is on or inside the frontier

3. A person has a comparative advantage in an activity whenever she
    A. can do the activity in less time than anyone else
    B. has an absolute advantage in the activity
    C. can perform the activity at a lower opportunity cost than can another person
    D. can do everything better than anyone else

4. A category 5 hurricane hits Louisiana and causes widespread destruction to the state's sugarcane crop. The devastation causes the
    A. supply curve for sugar to shift to the left, causing the price of sugar to fall
    B. supply curve for sugar to shift to the left, causing the price of sugar to rise
    C. supply curve for sugar to shift to the right, causing the price of sugar to rise
    D. supply curve for sugar to shift to the right, causing the price of sugar to fall

5. The part of economics that is limited to making statements about facts and the relationships among them is
    A. positive economics
    B. normative economics
    C. macroeconomics
    D. microeconomics

6. Suppose that in one week Mickey can produce 10 pairs of shoes or 5 bookshelves while Donald can produce 15 pairs of shoes or 7 bookshelves. Then Mickey has a(n) _____ advantage in producing _____.
    A. absolute; bookshelves
    B. comparative; shoes
    C. absolute; shoes
    D. comparative; bookshelves

7. Which of the following would change the quantity supplied for a good or service?
   A. a change in the technology used to produce the good or service
   B. a change in the price of inputs used to produce the good or service
   C. a change in expectations about the price of the good or service
   D. a change in the price of the good or service

8. Which of the following will NOT cause a shift of the demand curve?
   A. A change in income
   B. A change in the price of a substitute
   C. A change in the price of an input
   D. A change in the price of a complement

9. The most significant determinant of quantity supplied is
   A. the number of days good weather
   B. the amount of skilled labor available
   C. the price of the good itself
   D. the numbers of producers in the market

10. In production of goods and services, tradeoffs exist because
   A. buyers and sellers often negotiate prices
   B. society has only a limited amount of productive resources
   C. not all production is efficient
   D. human wants and needs are limited at a particular point in time

11. The property of distributing output fairly among society's members is called
   A. efficiency
   B. equity
   C. positive economics
   D. productivity

12. A circular flow diagram is
   A. a model that illustrates how government provides services to the public and generates revenue from taxes
   B. a model that explains how the economy is organized between households and firms
   C. a model that shows the flow of traffic in a large city
   D. a model that explains how banks circulate money in the economy

13. A change in quantity demanded is shown as a
   A. movement along the demand curve
   B. movement toward the demand curve
   C. rightward shift of the demand curve
   D. leftward shift of the demand curve

14. Opportunity cost is measured as
   A. the lowest-valued alternative forgone
   B. the cost of not doing all the things you would like to do
   C. the total value of alternatives forgone
   D. the highest-valued alternative forgone

15. A normal good is one for which demand
    A. rises as income rises
    B. falls as incomes rises
    C. is low because of the low quality of the good
    D. is unrelated to income

PROBLEMS

16. The following table shows the demand and supply schedules for **DVD Players**. Using the information in the table,
    (a) draw the demand and supply curves,
    (b) making sure that you indicate and explain the equilibrium price and quantity;
    (c) show and explain what happens if the price of **VCRs** decreases (the general effect, rather than a specific numerical value);

Price of DVD Players	Quantity demanded (per month)	Quantity supplied (per month)
$275	3000	6000
250	3400	5400
220	3800	4800
200	4200	4200
150	4600	3600
100	5000	3000

16. The following table shows the demand and supply schedules for **LCD televisions**. Using the information in the table,
    (d) draw the demand and supply curves,
    (e) making sure that you indicate and explain the equilibrium price and quantity;
    (f) show and explain what happens if the price of **satellite TV service** increases (the general effect, rather than a specific numerical value);

Price of TV's	Quantity demanded (per month)	Quantity supplied (per month)
$950	3000	6000
900	3400	5400
860	3800	4800
820	4200	4200
780	4600	3600
740	5000	3000

17. Alabama and Mississippi both have the ability to produce pecans and watermelons. The table below details how many units in millions of pounds that can be produced in one year (i.e., output of one and not both in one year, so Alabama can produce either 10 million pounds of pecan or 15 million pounds of watermelons in one year).

State/Good	Pecans	Watermelons
Alabama	10	15
Mississippi	12	24

A. Draw the production possibilities frontiers for each state (put on **one** diagram).
B. Determine which state has the absolute advantage in pecans; in watermelons.
C. Determine which state has the comparative advantage in pecans; in watermelons.
D. Is there a way for Alabama and Mississippi to collaborate that would be advantageous to both? What should Alabama do? What should Mississippi do? Explain.
SHOW ALL YOUR WORK

17. Florida and California can both produce lemons and limes. The table below shows details how many units (measured in thousands of tons) can be produced by each state in one year (i.e., output of one and not both in one year, so Florida can produce either 10 thousand tons of lemons or 30 thousand tons of limes in one year).

State/Good	Lemons	Limes
Florida	10	30
California	20	40

A. Draw the production possibilities frontiers for each state (put on **one** diagram)
B. Determine which state has the absolute advantage in lemons; in limes.
C. Determine which state has the comparative advantage in lemons; in limes.
D. Is there a way for Florida and California to collaborate that would be advantageous to both? What should Florida do? What should California do?
SHOW ALL YOUR WORK

ANSWERS

PART A

1. B
2. C
3. B
4. A
5. A
6. D
7. A
8. D
9. B
10. D
11. C
12. A
13. B
14. C
15. A

PART B

1. D
2. A
3. C
4. B
5. A
6. D
7. D
8. C
9. C
10. B
11. B
12. B
13. A
14. A
15. A