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

1) Increasing opportunity cost implies that
   A) the production possibilities frontier will be a straight line.
   B) producing additional units of one good results in proportionately smaller reductions in the output of the other good.
   C) producing additional units of one good results in increasing amounts of lost output of the other good
   D) the society will be producing inside its production possibilities frontier.

2) A country that must decrease production of one good in order to increase the production of another
   A) must be producing on its production possibilities frontier.
   B) must not have private ownership of property.
   C) must be using resources inefficiently.
   D) must be producing beyond its production possibilities frontier.

3) In the figure above, the opportunity cost of moving from point C to point D is
   A) the loss in production in the health care sector.
   B) zero.
   C) the increase in production in the education sector.
   D) the loss in production in the education sector.
4) In the production of goods and services, tradeoffs exist because
   A) not all production is efficient.
   B) society has only a limited amount of productive resources.
   C) human wants and needs are limited at a particular point in time.
   D) buyers and sellers often must negotiate prices.

5) Using a production possibilities frontier, economic growth is illustrated by a
   A) point inside the curve.
   B) rightward shift of the curve.
   C) movement from one point on the curve to another point on the curve
   D) point on the curve.

6) Suppose a scientific breakthrough made free solar power available in unlimited quantities in the United States. The effect of this invention would be to move the
   A) United States inside its production possibilities frontier.
   B) United States beyond its production possibilities frontier.
   C) U.S. production possibilities frontier inward.
   D) U.S. production possibilities frontier outward.

<table>
<thead>
<tr>
<th></th>
<th>Don's production possibilities</th>
<th>Bob's production possibilities</th>
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<tbody>
<tr>
<td>Pens</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Pencils</td>
<td>20</td>
<td>15</td>
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7) The above table shows the number of pencils or pens that could be produced by Don and Bob in an hour. This schedule shows that
   A) Bob has an absolute advantage over Don in the production of pencils, and Don has an absolute advantage in the production of pens.
   B) Don has an absolute advantage over Bob in the production of pencils, and Bob has an absolute advantage in the production of pens.
   C) Bob has a comparative advantage over Don in the production of pencils.
   D) Don has a comparative advantage over Bob in the production of both pencils and pens.

8) At one point along a PPF, 10 pizzas and 7 sandwiches can be produced. At another point along the same PPF, 9 pizzas and 10 sandwiches can be produced. The opportunity cost of a pizza between these points is
   A) 3 sandwiches.    B) 7/10 of a sandwich.    C) 1/3 of a sandwich.    D) 10/7 of a sandwich.

9) Allocative efficiency occurs when
   A) we cannot produce more of any one good without giving up some other good.
   B) we cannot produce more of any good without giving up some other good that we value more highly.
   C) marginal benefit exceeds marginal cost.
   D) opportunity costs are decreasing.
10) In the figure above, point D
   A) is efficient and point B is not efficient.  
   B) is less efficient than point C.  
   C) is efficient and point A is not efficient.  
   D) is not efficient and point B is efficient.

11) The nation’s production possibilities frontier is bowed outward. Suppose that the government decides to increase the production of armaments by $20 billion, and that as a result the output of consumer goods falls by $20 billion. If a further $20 billion increase beyond the initial $20 billion increase in armaments output is sought, we can expect that the output of consumer goods and services will fall further by
   A) $20 billion.  
   B) more than $20 billion.  
   C) less than $20 billion.  
   D) There is not enough information to determine the answer.

12) "The recent hurricanes in Florida are bringing financial gain to California citrus growers. Due to extensive damage to the Florida citrus crop, California citrus products are commanding their highest prices ever." Which of the following statements best explains the economics of this quotation?
   A) The supply of Florida oranges decreased, causing their price to increase, which then increased the demand for substitute California oranges.
   B) The demand for Florida oranges decreased, causing their prices to rise, therefore increasing the demand for California oranges.
   C) The supply of Florida oranges decreased, causing the supply of California oranges to increase and the price of California oranges to rise.
   D) The demand for Florida oranges decreased because of the hurricanes, causing a greater demand for California oranges and an increase in the price of California oranges.
13) The above figures show the market for hamburger meat. Which figure(s) shows the effect of an increase in the price of a substitute like hot dogs?
   A) Figure A  
   B) Figure C  
   C) Figure D  
   D) Figures A and C

14) Joe pays $8,000.00 in tuition. The tuition Joe pays is an example of what economists call
   A) an indexed price.  
   B) an opportunity price.  
   C) a relative price.  
   D) a money price.

15) Bicycles are made out of steel. If the price of steel increases, there would be a shift in the supply curve of bicycles that would lead to
   A) a temporary surplus of bicycles.  
   B) a shift in the demand curve for bicycles.  
   C) a permanent surplus of bicycles.  
   D) an increase in the price of a bicycle.

16) Suppose Jeep Cherokees are a normal good. Then if household income increases, the direct result will be
   A) a decrease in the demand for the vehicles.  
   B) an increase in the supply of the vehicles.  
   C) an increase in the demand for the vehicles.  
   D) Both answers A and C are correct.
17) In the above figure, when 2000 bicycles are made each month, we can see that
   A) more bicycles should be produced to reach the efficient level of output.
   B) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
   C) the economy is very efficient at the production of bicycles because the marginal benefit exceeds the marginal cost.
   D) both answers A and B are correct.

18) When an economist refers to choices made "at the margin" the economist is referring to:
   A) decisions based on the marginal benefits and marginal costs of small changes in a particular activity.
   B) an individual's margin account with a stockbroker that allows part of a stock purchase to be made with borrowed money.
   C) an individual's all-or-nothing choice concerning a specific good or activity.
   D) all of the above

19) A decrease in the demand for beef because of concerns over cholesterol will result in
   A) an offsetting increase in the demand for beef if the price of beef falls.
   B) an increase in the supply of beef.
   C) lower beef prices.
   D) higher beef prices.

20) Which of the following would increase the equilibrium price of a used car and decrease the equilibrium quantity sold?
   A) a new fee that used car dealers must pay to the government on all sales of used cars
   B) new federal legislation that raises the legal driving age to twenty-four in all states
   C) An announcement by the U.S. Attorney General that the windows on older cars were made with cheaper glass that can explode at high speeds.
   D) All of the above because each is consistent with the law of demand.
21) In the above figure, which of the following is TRUE regarding the movements from point A to B and from point C to D?

I. The movement from point A to B shows that the economy has chosen to produce 100 more jets.
II. The movement from point C to D shows that the economy has chosen to produce 100 more jets.
III. The movements from point A to B and from point C to D have the same opportunity cost.

A) I and III  
B) I, II, and III  
C) II and III  
D) I and II

22) Consider the market for soft drinks shown in the figure above. Moving from point a to point c means that

A) people’s incomes have decreased.
B) the price of a soft drink has increased.
C) the marginal benefit of each additional soft drink falls.
D) the opportunity cost of another soft drink increases.
23) In the figure above, both Joe and Jill initially produce at point A. If Joe and Jill realize that they each possess a comparative advantage, which outcome can we expect?

A) Joe will specialize in shirts, and Jill will specialize in pants.
B) Joe will specialize in pants, and Jill will specialize in shirts.
C) Joe and Jill each will be able to consume more than 2 shirts and 2 pairs of pants.
D) Both answers B and C are true.

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<tr>
<th>Possibility</th>
<th>Guns (hundreds)</th>
<th>Butter (tons)</th>
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<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>15</td>
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<tr>
<td>D</td>
<td>4</td>
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<tr>
<td>E</td>
<td>5</td>
<td>3</td>
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24) The table above shows the production possibilities frontier for the economy of Sauria. The opportunity cost of increasing gun production from 3 hundred guns to 4 hundred guns is

A) 7 tons of butter.   B) 1 ton of butter.   C) 5 tons of butter.   D) 3 hundred guns.
ESSAY. Write your answer in the space provided below

25) During the real estate boom of the mid-1990s, the prices of new and existing homes rose year after year yet people purchased more homes year after year. Can this outcome be explained as an exception to the law of demand? (Show a graph and write a brief statement to explain)