1. The cost-benefit principle indicates that an action should be taken
   A. if the total benefits exceed the total costs.
   B. if the average benefits exceed the average costs.
   C. if the net benefit (benefit minus cost) is zero.
   D. if the extra benefit is greater than or equal to the extra costs.

2. The 7th glass of soda that Tim consumes will produce an extra benefit of 10 cents and has an extra cost of zero (Tim is eating at the cafeteria). The cost-benefit principle predicts that Tim will
   A. realize he has had too much soda to drink and go home.
   B. drink the 7th glass and continue until the marginal benefit of drinking another glass of soda is zero.
   C. volunteer to empty out the fountain.
   D. not drink the 7th glass.

3. Relative to a person who earns minimum wage, a person who earns $30 per hour has
   A. a lower opportunity cost of working longer hours.
   B. a higher opportunity cost of taking a day off.
   C. a lower opportunity cost of driving farther to work.
   D. the same opportunity cost of spending time on leisure activities.

4. Pat earns $25,000 per year (after taxes), and Pat's spouse, Chris, earns $35,000 (after taxes). They have two pre-school children. Childcare for their children costs $12,000 per year. Pat has decided to stay home and take care of the children. Pat must
   A. value spending time with the children by more than $25,000.
   B. value spending time with the children by more than $12,000.
   C. value spending time with the children by more than $13,000.
   D. value spending time with the children as much than does Chris.

5. Jody has purchased a non-refundable $25 ticket to attend a Savage Garden concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should
   A. include only the entertainment value of the concert in the opportunity cost of going on the date.
   B. include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.
   C. include only the cost of concert ticket in the opportunity cost of going on the date.
   D. include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.

6. To say that an individual possesses an absolute advantage in the production of software means that that individual
   A) has a lower opportunity cost of producing software.
   B) can produce more and/or higher quality software in a given amount of time.
   C) was the first to create the software.
   D) charges the lowest price for software.
   E) has the most venture capital.

7. If Scout has an absolute advantage over Dill,
   A) Scout has more money than Dill.
   B) the problem of scarcity applies to Dill but not to Scout.
C) the problem of scarcity applies to Scout, but not to Dill.
D) Scout can accomplish more in a given period of time than can Dill.
E) Both A and D are correct.

8. If Leslie can produce two pairs of pants in an hour while Eva can make one pair an hour, then it must be the case that
A) Leslie has a comparative advantage.
B) Eva has an absolute advantage.
C) Leslie has an absolute advantage.
D) Eva has a comparative advantage.
E) Leslie has both comparative and absolute advantage.

9. Having a comparative advantage in a particular task means that
A) you are better at it than other people.
B) you give up more to accomplish that task than do others.
C) you give up less to accomplish that task than do others.
D) you have specialized in that task, while others have not.
E) you prefer that task over other tasks.

10. Which of the following statements is always true?
A) Comparative advantage implies absolute advantage.
B) Absolute advantage implies comparative advantage.
C) Comparative advantage does not require absolute advantage.
D) Absolute advantage requires comparative advantage.
E) Comparative advantage requires absolute advantage.

11. If Jane can produce 3 pairs of shoes hourly, while Bob can produce 2, then one can infer that
A) absolute; Bob
B) comparative; Jane
C) comparative; Bob
D) comparative; both of them
E) insufficient information to say

Use the following to answer questions 12-19:

<table>
<thead>
<tr>
<th></th>
<th>Shoes Per Hour</th>
<th>Pants Per Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jenny</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Craig</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

12. According to the data, Jenny has an absolute advantage in
A) the production of shoes.
B) neither shoe nor pants production.
C) the production of pants.
D) both shoe and pants production.
E) pants and possibly shoe production.

13. Craig possesses an absolute advantage in
A) the production of shoes.
B) neither shoe nor pants production.
C) the production of pants.
D) both shoe and pants production.
E) pants and possibly shoe production.

14. Jenny’s opportunity cost of producing an extra pair of pants is
A) 2/3 pair of shoes.
B) 1 pair of shoes.
C) 1.5 pairs of shoes.
D) 2 pairs of shoes.
E) 2.5 pairs of shoes.

15. Jenny’s opportunity cost of producing an extra pair of shoes is
A) .33 pairs of pants.
B) 1 pair of shoes.
D) 1 pair of pants.
16. Craig's opportunity cost of producing an extra pair of pants is
   A) .75 pair of shoes.  
   B) 1 pair of shoes.  
   C) 1.25 pairs of shoes.
   D) 1.30 pairs of shoes.  
   E) 1.33 pairs of shoes.

17. Craig's opportunity cost of producing an extra pair of shoes is
   A) .75 pairs of pants.  
   B) .90 pairs of pants.  
   C) 1 pair of pants.
   D) 1.25 pairs of pants.  
   E) 1.33 pairs of pants.

18. The comparative advantage for shoes belongs to __________ and the comparative advantage for pants belongs to __________.
   A) Craig; Jenny  
   B) Craig; Craig  
   C) Jenny; Craig
   D) Jenny; Jenny  
   E) insufficient information to say

19. Based on their comparative advantages, Craig should specialize in producing __________ while Jenny should specialize in producing __________.
   A) shoes; pants  
   B) both; neither 
   C) neither; both
   D) pants; shoes  
   E) insufficient information to say

20. Failure to apply the principle of comparative advantage will result in
   A) greater total output.  
   B) a greater variety of goods and services.  
   C) greater total income.
   D) more trade between individuals.  
   E) smaller total output.

21. The production possibilities curve shows
   A) the relationship between inputs and output.  
   B) the minimum production of one good for every possible production level of the other good.
   C) how increasing the inputs used for one good increases the production of the other good.
   D) the maximum production of one good for every possible production level of the other good.
   E) how increasing the production of one good allows production of the other good to also rise.

Use the following to answer questions 22-24:

This graph describes the production possibilities on the island of Genovia:

![Graph showing production possibilities curve]
22. The opportunity cost of producing one car in Genovia is
A) 5,000 tons less of agricultural products.  D) 50,000 tons less of agricultural products
B) 500 tons less of agricultural products  E) 50 tons less of agricultural products.
C) 5 tons less of agricultural products

23. The opportunity cost of producing one ton of agricultural products in Genovia is
A) 1,000 fewer cars.  D) one-fiftieth fewer car.
B) 1 fewer car  E) 5 fewer cars.
C) one-fifth fewer car

24. Assuming efficient production, if 500 cars are produced in Genovia
A) 50,000 tons of agricultural products are being produced.
B) 25,000 tons of agricultural products are being produced.
C) 45,000 tons of agricultural products are being produced
D) 40,000 tons of agricultural products are being produced
E) None of the above is correct, because it is inefficient to produce any cars in Genovia.

25. The slope of any production possibilities curve is __________ because __________.
A) negative; production of one of the two goods is always insufficient
B) negative; to produce more of one good means less production of the other
C) constant; the tradeoff in production never changes
D) positive; to produce more of one good means more production of the other
E) positive; to produce more of one good means less production of the other

Use the following to answer questions 26-30:

26. Becky's maximum production of clogs per hour is represented by point
A) u.    B) t.    C) v.    D) y.    E) w.

27. Becky's maximum production of sandals per hour is represented by point
A) u.    B) t.    C) v.    D) z.    E) w.

28. Point u is a(n) __________ point in relation to the production possibilities curve.
A) attainable  B) efficient  C) unattainable  D) inefficient  E) inefficient and
attainable

29. Of the labeled points, ____________ are attainable
   A) only t and u  D) only w, x, y, z, v, and t
   B) only x, y, and z  E) only w, x, y, z, v, and u
   C) only w, x, y, z, and t

30. Of the labeled points, ____________ are efficient.
   A) only t and u  D) only w, x, y, z, v, and t
   B) only x, y, and z  E) only w, x, y, z, and v
   C) only w, x, y, z, and t

Use the following to answer questions 31-33:

You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:

![Coconuts vs Fish Production Possibilities Curve](image)

You are negotiating a deal with a neighboring island that has the following annual PPC:

![Coconuts vs Fish Production Possibilities Curve](image)

31. As soon as you see the other island's PPC you realize
   A) there will be no trade because the other island has the same comparative advantage as yours.
   B) there will be no trade because there is no difference in your ability to harvest coconuts.
   C) there will be no trade because the other island has an absolute advantage.
   D) gains from trade will be possible because the opportunity cost of fishing is too high on the other island.
   E) your island will have to specialize in coconuts if it wants to gain from trade.

32. You have arrived with 300 coconuts to trade. The minimum number of fish you would be willing to accept in exchange for those coconuts
   A) depends on whether the islanders prefer fish to coconuts.
   B) is 1500 fish, because that's how many you can catch without trade.
   C) is 1200 fish, because that is just enough to offset the opportunity cost of harvesting
the coconuts.
D) is 301 fish, because anything better than a one-for-one trade benefits your island.
E) is 901 fish, because that is just a little more than the opportunity cost of harvesting
the coconuts.

33. If you offer to give the other island 400 coconuts in exchange for 1500 fish,
A) they will refuse your offer because it makes them worse off than producing on their
own.
B) they will accept your offer because it keeps them on their original PPC, and so is
efficient.
C) they will accept your offer because it gives them 800 coconuts, which is more than
they can make on their own.
D) they will accept your offer because it allows them to consume a combination of fish
and coconuts that would be unattainable on their own.
E) they will accept your offer because they feel sorry for the poor citizens of your island.

Use the following to answer questions 34-35:

34. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity
cost of spending one more hour studying
A) is diminishing with each additional hour.
B) is increasing with each additional hour.
C) is exactly one hour of paid work.
D) is the marginal benefit from studying.
E) depends on whether Sven looks at the dashed line or the solid line.

35. Sven could move from the bold PPC to the dashed PPC by
A) finding a job that paid a higher wage.
B) studying fewer hours but more effectively per hour.
C) devoting fewer hours to sleeping
D) spending more time on leisure activities.
E) spending more time on the activity for which he has a comparative advantage.