

Chapter 3 Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. People who provide you with goods and services
- are acting out of generosity.
 - are acting because they like you.
 - are required to do so by government.
 - do so because they get something in return.
- _____ 2. A country's consumption possibilities frontier can be outside its production possibilities frontier
- with trade.
 - by allocating resources differently.
 - by producing a greater variety of goods and services.
 - by lowering unemployment in the country.

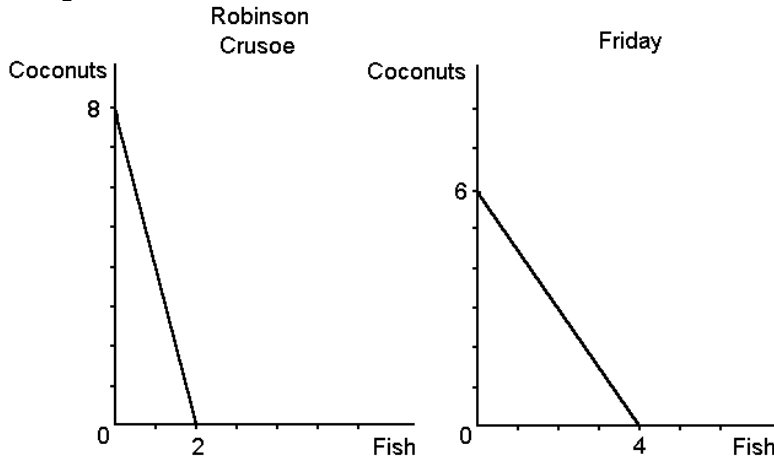
Table 3-1

Pounds produced
in 20 hours:

	<u>Meat</u>	<u>Potatoes</u>
Farmer	2	4
Rancher	5	20

- _____ 3. Refer to Table 3-1. For the Rancher, the opportunity cost of 1 pound of meat is
- 5 hours of labor.
 - 1 hour of labor.
 - 1/4 pound of potatoes.
 - 4 pounds of potatoes.

Graph 3-1



These figures illustrate the production possibilities frontiers for Robinson Crusoe and Friday with 12 hours of labor.

- _____ 4. Refer to Graph 3-1. For Robinson Crusoe the opportunity cost of 1 pound of fish is
- 2 pounds of coconuts.
 - 1/2 pound of coconuts.
 - 4 pounds of coconuts.
 - 1/4 pound of coconuts.
- _____ 5. Refer to Graph 3-1. Robinson Crusoe has an absolute advantage in _____ and Friday has a comparative advantage in _____.
- coconuts, fish
 - both goods, coconuts
 - fish, coconuts
 - neither good, fish

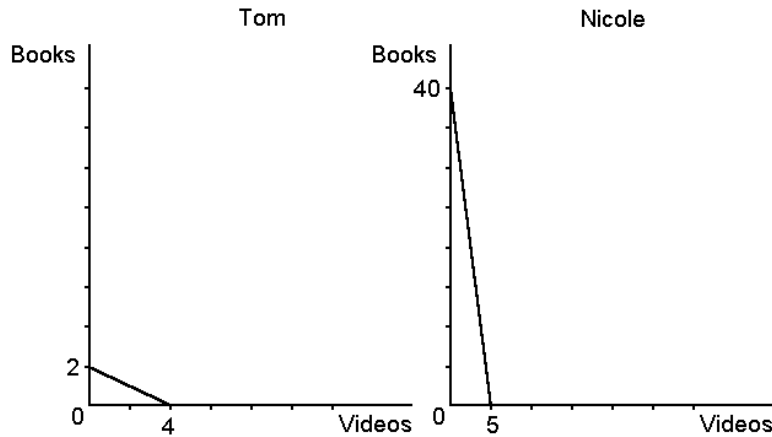
Table 3-2

For the following question(s), use the accompanying table.

	Amount produced in 120 hours:	
	Perfume (bottles)	Cloth (yards)
Nancy	20	15
Roger	24	12

- _____ 6. Refer to Table 3-2. Nancy has a comparative advantage in _____ and Roger has a comparative advantage in _____.
- cloth, perfume
 - cloth, both goods
 - cloth, neither good
 - perfume, cloth

Graph 3-2



These figures illustrate the production possibilities available to Tom and Nicole with 40 hours of labor.

- _____ 7. Refer to Graph 3-2. Nicole has an absolute advantage in _____ and Tom has a comparative advantage in _____.
- both goods, videos
 - neither good, videos
 - books, neither good
 - both goods, books
- _____ 8. Refer to Graph 3-2. Nicole should specialize in _____ and Tom should specialize in _____.
- videos, books
 - books, videos
 - books, neither good
 - both goods, videos

Table 3-3

	Amount produced in 2400 hours:	
	Cars	Airplanes
U.S.	60	15
Japan	48	16

- _____ 9. Refer to Table 3-3. Japan has an absolute advantage in _____ and the U.S. has a comparative advantage in _____.
- both goods, cars
 - both goods, neither good
 - cars, airplanes
 - airplanes, cars

- _____ 10. Refer to Table 3-3. The U.S. and Japan could benefit by the U.S. specializing in _____ and Japan specializing in _____.
- airplanes, airplanes
 - cars, airplanes
 - airplanes, cars
 - neither good, cars
- _____ 11. Refer to Table 3-3. If the U.S. and Japan trade based on the principle of comparative advantage, the U.S. will export what product to Japan?
- cars
 - both airplanes and cars
 - airplanes
 - The U.S. should buy both products from Japan.
- _____ 12. David Ricardo
- wrote books opposing the ideas of Adam Smith.
 - argued in favor of Britain following a free-trade policy.
 - was the founder of modern economics.
 - wrote *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776.
- _____ 13. The gains from trade are
- higher from trade between a rich nation and a poor nation.
 - based on different wage rates between nations.
 - a result of more efficient resource allocation.
 - based on the principle of absolute advantage.

Table 3-4

Use the accompanying table to answer the following questions:

	Amount produced in 40 hours	
	Cheese	Bread
England	40	20
Spain	20	5

- _____ 14. Refer to Table 3-4. England has an absolute advantage in _____ and Spain has a comparative advantage in _____.
- bread, cheese
 - bread, neither good
 - cheese, both goods
 - both goods, cheese
- _____ 15. Refer to Table 3-4. If England and Spain trade based on the principle of comparative advantage, England will import _____ and Spain will import _____.
- bread, cheese
 - bread, bread
 - cheese, cheese
 - cheese, bread