

Units 1.1-1.3 Practice Question

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. In which of the following situations is a good NOT scarce?

(A) Consumer give up nothing to obtain more of the good.



(B) Consumer can purchase as much of the good as they want at its current market price.

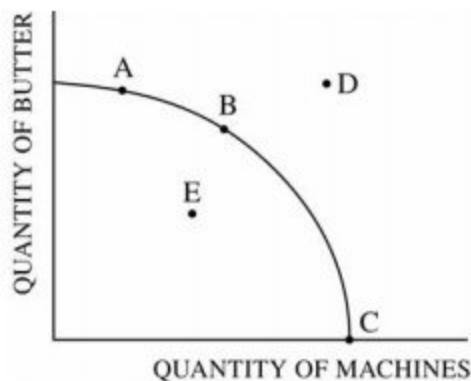
(C) Large quantities of the good are available in the marketplace.

(D) There is a surplus of the good at some positive price.

(E) There is a shortage of the good at some positive price.

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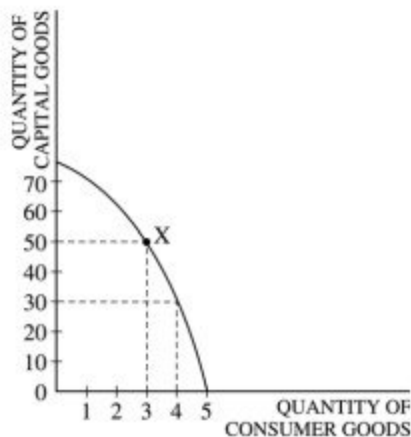
3.



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.

4.

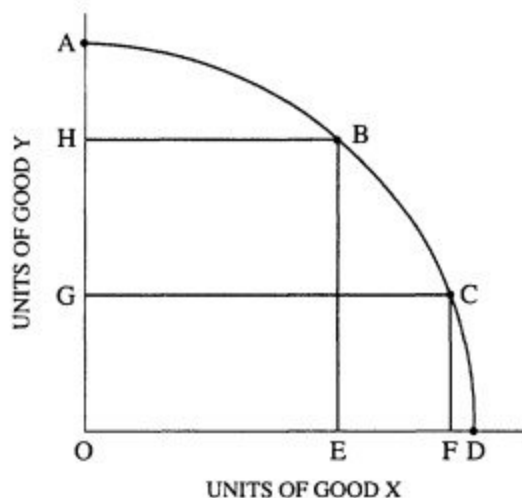


According to the graph above, if a country is currently producing at point X, the opportunity cost of producing another consumer good is

- (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

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5.



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 of good X



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

- (A) Constant opportunity costs
- (B) Decreasing opportunity costs
- (C) Increasing opportunity costs
- (D) Diminishing marginal returns
- (E) Labor-intensive production

**Answer A**

Correct. A linear production possibilities curve has a constant slope, meaning that the trade-off between the two variables described by the linear function is constant. Therefore, the opportunity cost is constant.

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7. An outward shift in the production possibilities curve of an economy can be caused by an increase in
- (A) unemployment
 - (B) the labor force ✓
 - (C) inflation
 - (D) output
 - (E) demand
8. 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
9. 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 ✓
10. 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 ✓
11. As a factor of production, capital refers to the
- (A) money available to start a business
 - (B) stocks and bonds issued by businesses to raise funds
 - (C) financial investment of businesses
 - (D) currency in circulation and deposits in financial institutions
 - (E) tools and machinery used to produce goods and services ✓

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12. 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 ✓

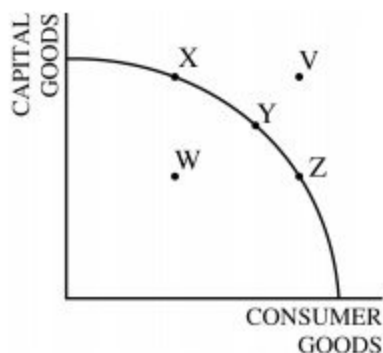
(B) An increase in the prices of both goods

(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

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



13. 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

14. 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

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15. Which of the following is necessary in a well-functioning capitalist economy but not in a command economy?

- (A) Centralized decision making
- (B) Scarcity of resources
- (C) Monopolies

(D) Protection of property rights



(E) Positive externalities

16. Which of the following is associated with a command economy?

- (A) Competitive product markets
- (B) Use of resources for private gain
- (C) Use of available resources to meet all the needs and wants of its citizens
- (D) Entry of firms into industries with economic profit

(E) Public ownership of the means of production

**Answer E**

Correct. In a command economy, resources are publicly owned, and their uses are determined by a central planning agency.

17. Assume there are two goods in a market economy. The amount of each good produced is determined by

(A) buyers and sellers' interactions in the market for each good



- (B) a central planning agency
- (C) the desires of households only
- (D) each citizen's minimum needs for survival
- (E) popular voting with one vote per citizen

Answer A

Correct. The interaction of buyers and sellers in the market determines the quantity produced of a good.

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18. A difference between command and market economic systems is that command economic systems
- (A) have a legal system that provides incentives to produce, whereas market economic systems do not
 - (B) ensure efficiency, whereas market economic systems ensure equity
 - (C) limit individual property rights, whereas market economic systems protect individual property rights ✓
 - (D) maximize producer and consumer surplus, whereas market economic systems do not
 - (E) regulate production but not distribution, whereas market economic systems regulate both production and distribution

Answer C

Correct. A fundamental characteristic of market economic systems is the protection of individual (private) property rights. In command economic systems, individual (private) property rights are limited, as property is, for the most part, publicly owned.

19. Command economies differ from capitalist economies mainly because of which of the following?
- (A) Command economies have higher prices for oil.
 - (B) Capitalist economies have higher prices for oil.
 - (C) Command economies have higher degree of government ownership of resources. ✓
 - (D) Capitalist economies have higher degree of government ownership of resources.
 - (E) Command economies rely on prices to allocate resources.
20. Which of the following is true in a command economy?
- (A) There is more private ownership of the factors of production than in a market economy.
 - (B) Production decisions are based on the incentive of firms to maximize profits.
 - (C) The government directs the use of factors of production. ✓
 - (D) The price system is used to allocate resources.
 - (E) There is more freedom of enterprise than in a market economy.

Answer C

Correct. In a command economy, the government, not the market, determines how factors of production will be used.

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21. Which of the following best explains the difference in resource allocation between a pure command economy and a pure market economy?
- (A) A pure command economy allocates resources based on individual choices, whereas a pure market economy allocates resources using central planning.
 - (B) A pure command economy allocates resources to maximize profits, whereas a pure market economy allocates resources to maximize revenues.
 - (C) A pure command economy allocates resources using central planning, whereas a pure market economy relies on market forces to allocate resources. ✓
 - (D) A pure command economy allocates resources to eliminate income inequalities, whereas a pure market economy allocates resources to eliminate negative externalities.
 - (E) A pure command economy allocates resources to achieve allocative efficiency, whereas a pure market economy allocates resources to achieve productive efficiency.

Answer C

Correct. In a pure command economy, the government allocates resources using central planning, whereas in a pure market economy, resources are allocated based on market forces.

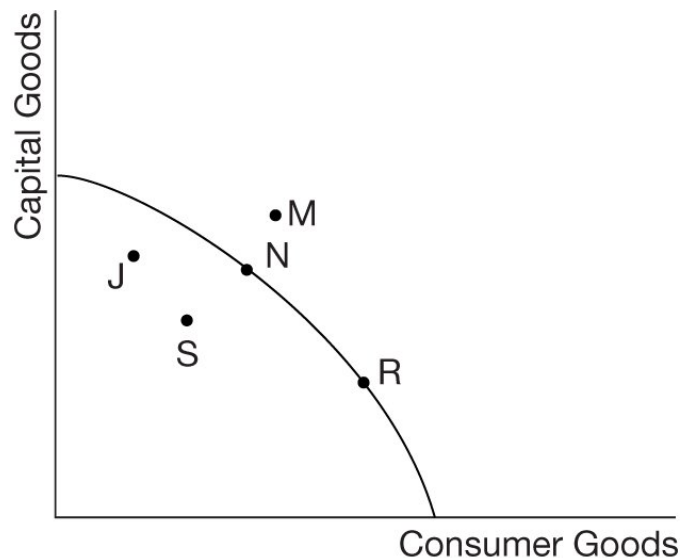
22. In contrast to a market economy, a command economy relies on which of the following?
- (A) The private sector in deciding what goods will be produced
 - (B) Private ownership of resources
 - (C) Profits as incentives to make choices
 - (D) The government to allocate resources ✓
 - (E) Supply and demand to determine prices

Answer D

Correct. In a command economy, the government or a central authority decides what goods and services to produce, how to produce goods and services, and who consumes goods and services.

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23.



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

**Answer B**

Correct. Point N is on the *PPC*, so it is efficient with all resources employed. Compared to point R, the only other point on the frontier, there are more capital goods being produced, which will increase future production.

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

- (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



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25. The study of economics exists because people are confronted with the basic problem of
- (A) elasticity
 - (B) negative externality
 - (C) scarcity ✓
 - (D) overabundance
 - (E) monopoly
26. The study of economics is primarily concerned with which of the following?
- (A) The testing of hypotheses under controlled conditions
 - (B) The allocation of scarce resources, given unlimited wants ✓
 - (C) The fair and equal treatment of all households
 - (D) The provision of conclusive answers to public policy issues
 - (E) The development of the dynamics of group behavior
27. Which of the following economic systems primarily relies on prices for allocating resources and goods?
- (A) Free-market ✓
 - (B) Traditional
 - (C) Command
 - (D) Mixed
 - (E) Socialism

Answer A

Correct. A free-market economy relies on individuals responding to market price signals to allocate resources to the production of goods that are most valued in the market. That is, resources flow to the most valued activity as indicated by prices.

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28. In a command economy, the quantity of computers produced would be determined by

- (A) factory owners
- (B) the government
- (C) consumers and producers
- (D) international trade
- (E) the wealthy

**Answer B**

Correct. In a command economy, the government sets policy, owns the means of production, and answers the questions what to produce, how to produce, and for whom to produce.

29. Compared to a market economy, in a command economy there is greater

- (A) government involvement in the allocation of resources
- (B) protection of private property rights
- (C) reliance on prices for allocating scarce resources
- (D) reliance on private businesses for the allocation of resources and distribution of goods
- (E) consumption of consumer goods

**Answer A**

Correct. In a command economy, the means of production are owned by the government. The decision to allocate resources and the distribution of goods and services are determined by the government. It does not primarily rely on markets for allocating resources and goods.

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30. 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

Answer A

Correct. A point on the production possibilities curve indicates that all resources are being used and that they are being used efficiently.

31. Which of the following is the best example of a scarce factor of production?
- (A) Money
 - (B) Food
 - (C) Air
 - (D) Airplanes ✓
 - (E) Established knowledge

Answer D

Correct. Airplanes are capital goods used to produce transportation services; therefore, they are a factor of production. Airplanes are also scarce.

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32. 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

33. Scarcity is correctly described by which of the following statements?

- I. Scarcity exists if there are more uses for resources than can be satisfied at one time.
- II. Scarcity exists if decisions must be made about alternative uses for resources.
- III. Scarcity would not exist in a society in which people wanted to help others instead of themselves.

- (A) I only
- (B) II only
- (C) III only

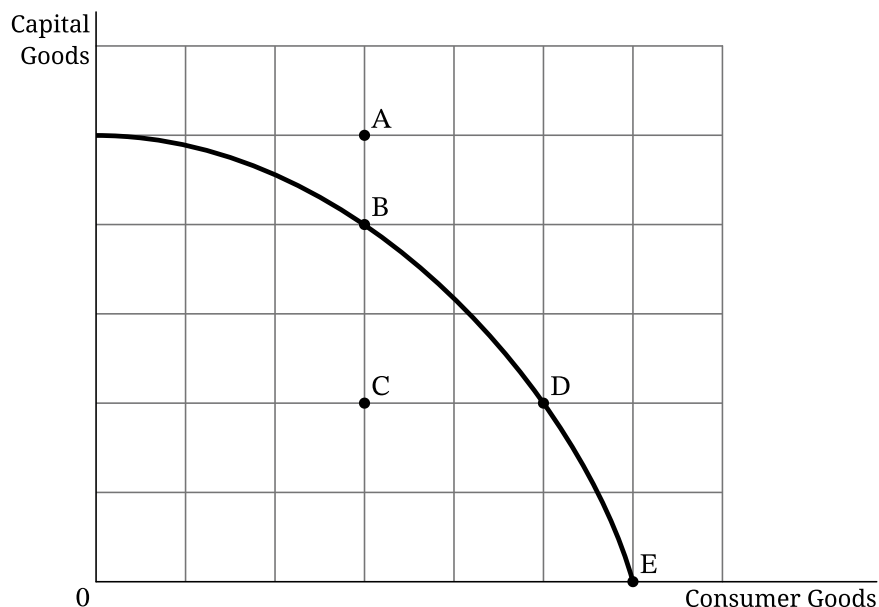
(D) I and II only



(E) I, II, and III

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34. The graph shows a production possibilities curve for a country.



Assuming no change in the country's quantity and productivity of resources, the country can produce more capital goods without giving up any consumer goods if the country is currently producing at which point?

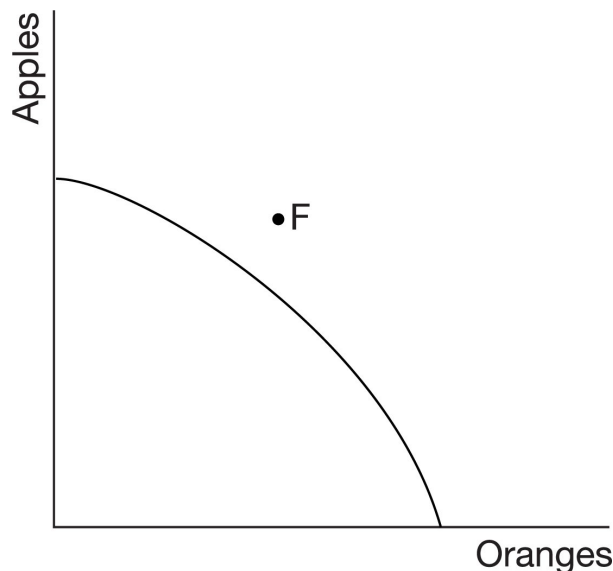
- (A) Point A
- (B) Point B
- (C) Point C
- (D) Point D
- (E) Point E

**Answer C**

Correct. The production possibilities curve (PPC) represents the maximum quantity of capital goods and consumer goods the country is capable of producing at a given point in time and with a given quantity and productivity of resources and state of technology. At any point inside the PPC, the country is not fully utilizing its available resources; thus, at point C, the country can produce more of both goods by fully utilizing the available resources and moving to a point on the PPC.

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35.



Which of the following will enable an economy to reach point F on the diagram above?

- (A) Reallocating currently available resources from apple production to production of oranges
- (B) Reallocating currently available resources from orange production to production of apples
- (C) Fully allocating currently available and unemployed resources efficiently
- (D) Creating or discovering new resources ✓
- (E) Becoming a mixed economy

Answer D

Correct. Reaching point F requires economic growth, which can result from the discovery of new resources, increases in the labor force, increases in capital stock, or technological progress.

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36. A power company decides to use wind turbines to provide electricity instead of coal. Which basic economic question does this decision answer in a free market economy?
- (A) What goods or services will be produced?
 - (B) How will goods or services be produced? ✓
 - (C) Who will consume the goods or services?
 - (D) What economic system should be adopted?
 - (E) Who gets to decide?

Answer B

Correct. Using a wind turbine determines how electricity is provided or what resources are used to produce it. By specifying the resources to be used, it determines the method by which they will be produced. Therefore, it answers the question how goods and services will be produced.

37. 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.
38. 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
39. 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 ✓

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40. Individuals in any society must make choices regarding the types of goods and services to be produced because
- (A) free markets do not always allocate resources efficiently
 - (B) free markets only satisfy the demands of paying consumers
 - (C) opportunity costs increase as more of a good or service is produced
 - (D) resources are scarce and human wants are unlimited ✓
 - (E) resources must be allocated for the benefit of the entire society
41. The basic economic problem of all countries is the existence of
- (A) tax increases and budget deficits
 - (B) limited resources and unlimited wants ✓
 - (C) unemployment and inflation
 - (D) government and private industry
 - (E) unions and monopoly firms
42. 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.

Answer C

Correct. Since the production possibilities curve is linear, the opportunity cost of each good, in terms of the other good, is constant. With the frontier going from an intercept of 1000 on the Y axis to 100 on the X axis, each unit of X costs 10 units of good Y and each unit of good Y cost .1 units of good X.

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43.

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.

Answer D

Correct. The opportunity cost increases because as the production of good X increases, the production of good Y decreases by greater amounts. Producing the first 20 units of good X requires giving up 5 units of good Y, producing the next 20 units of good X requires giving up 10 units of good Y, producing the next 20 units of good X requires giving up 20 units of good Y, producing the next 20 units of good X requires giving up 30 units of good Y, and producing the last 20 units of good X requires giving up 35 units of good Y. Thus, the opportunity cost increases as more of X is produced.

44. 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

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45. As an economy moves along its production possibilities curve, which of the following must be true?

- (A) The marginal benefit of the output is greater than the marginal cost of the output.
- (B) An increase in output results in a decrease in average total cost.
- (C) The marginal social cost of producing an additional output is zero.
- (D) Producing more of one good results in producing less of the other good. ✓
- (E) The economy is producing the socially optimal combination of goods.

Answer D

Correct. A movement along the production possibilities curve demonstrates opportunity cost in production, which is the amount of one good that must be given up to produce more of another good.

46. Which of the following describes a factor of production that is not fully scarce and that can be used simultaneously in the production of more than one good?

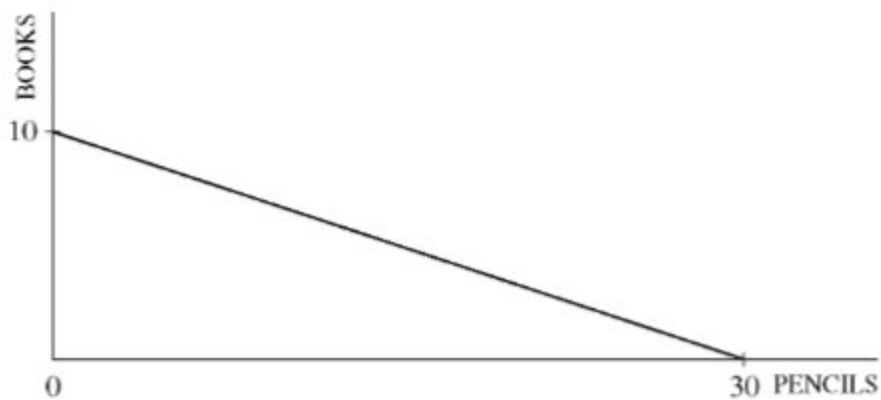
- (A) Machines that can produce both clothing and bedsheets
- (B) Unskilled labor needed to produce all goods
- (C) Basic knowledge that enhances the organization of all manufacturing assembly lines ✓
- (D) Land that is cultivated for two crops by more than one farmer
- (E) Labor that has received enhanced training in assembly-line work

Answer C

Correct. With this basic knowledge there is nonrival use. It can enhance the production of more than one good simultaneously, without any trade off.

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47.



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

- (A) 30 pencils
- (B) 10 pencils
- (C) 3 pencils
- (D) $\frac{1}{3}$ of a pencil
- (E) $\frac{1}{10}$ of a pencil



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

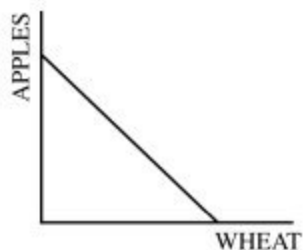


Figure 1

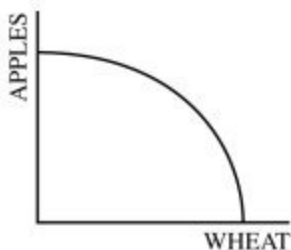


Figure 2

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

(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

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

<u>Good X</u>	<u>Good Y</u>
1,000	0
990	100
980	200
970	300

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

- (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
50. Which of the following is an example of physical capital?

- (A) Earnings from a job
- (B) Fish in the ocean
- (C) Money in a person's wallet
- (D) An unskilled worker
- (E) A tractor used in farming

Answer E

Correct. Physical capital represents tangible inputs, such as a factory, machinery, and infrastructure that are used to produce output. A tractor is a machine used to aid in the production of crops in farming.

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51. Which of the following is NOT an example of physical capital?

- (A) A delivery truck
- (B) A warehouse
- (C) Office furniture
- (D) Machinery
- (E) Land

**Answer E**

Correct. Land is a different factor of production from capital. Land refers to natural resources.

52.

Doughnuts	140	120	90	50	0
Sweet Rolls	0	10	20	30	40

The above data describes a bakery's daily production possibilities curve for doughnuts and sweet rolls. Which of the following is true about the PPC?

- (A) The PPC illustrates decreasing opportunity cost.
- (B) The PPC illustrates increasing opportunity cost.
- (C) The PPC illustrates constant opportunity cost.
- (D) Producing 100 doughnuts and 10 sweet rolls illustrates efficiency in production.
- (E) Producing 0 doughnuts and 40 sweet rolls illustrates inefficiency in production.

**Answer B**

Correct. Producing the first 10 sweet rolls requires giving up 20 doughnuts. Producing the next 10 sweet rolls requires giving up 30 doughnuts, and so on. Ever-increasing amounts of doughnuts have to be given up to increase the production of sweet rolls. Thus, the opportunity cost is increasing.

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53. 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.

Respond to all parts of the question.

Part (a)

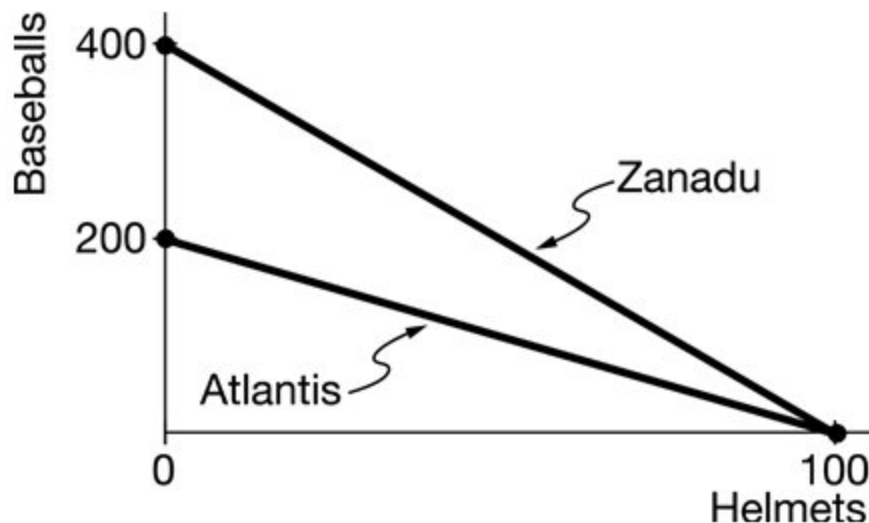
Select a point value to view scoring criteria, solutions, and/or examples and to score the response.



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).



Units 1.1-1.3 Practice Question**Part (b)**

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



0	1
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The response correctly calculates the opportunity cost of one helmet for Atlantis as 2 baseballs and shows in the work that the opportunity cost = $200 \text{ baseballs} / 100 \text{ helmets} = 2 \text{ baseballs per helmet}$

Part (c)

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



0	1
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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
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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
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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).

Units 1.1-1.3 Practice Question

Units 1.1-1.3 Practice Question

54. 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.

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).
- Respond to all parts of the question.

Part (a)

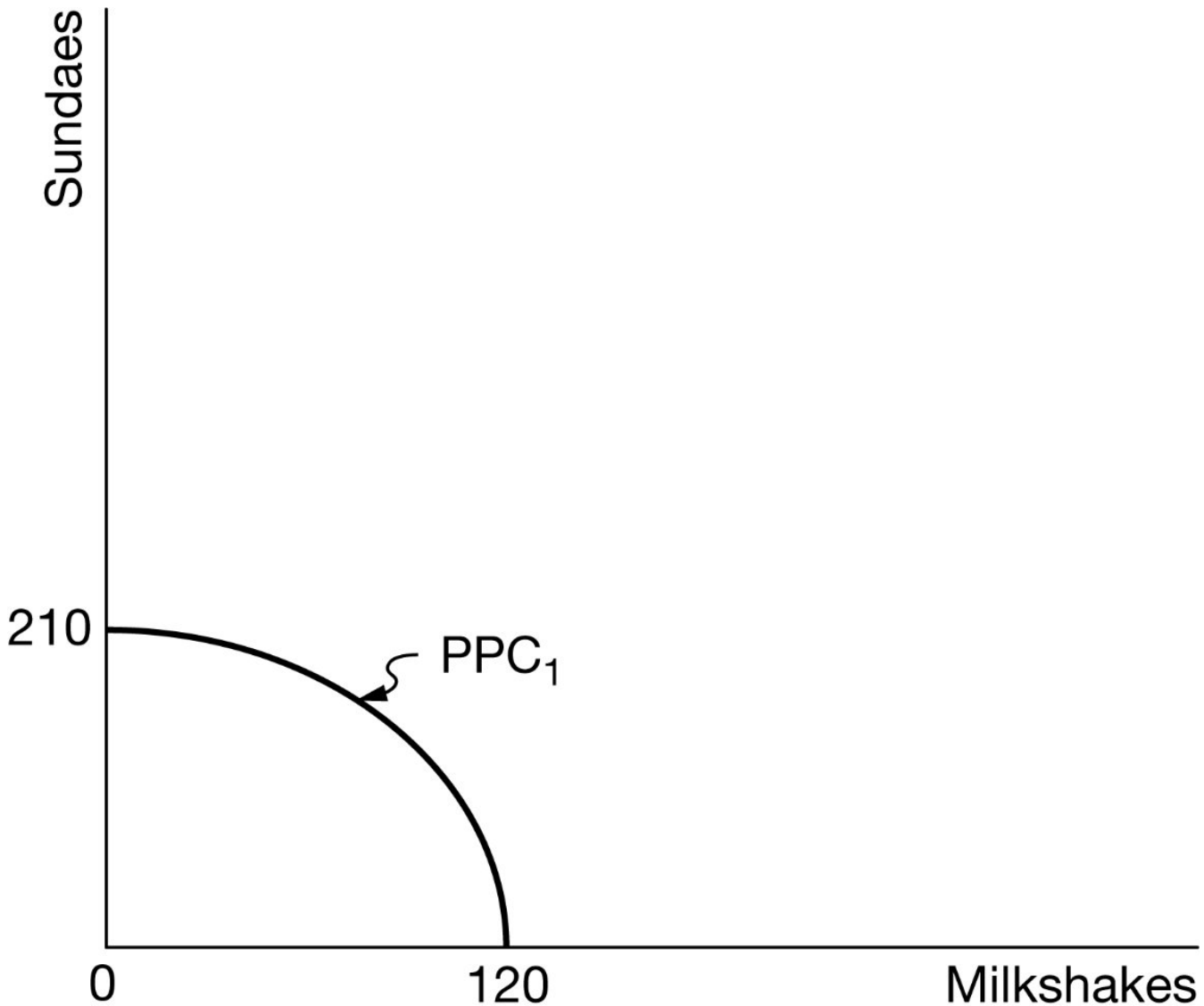
Select a point value to view scoring criteria, solutions, and/or examples and to score the response.



0	1
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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.

Units 1.1-1.3 Practice Question



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)

Units 1.1-1.3 Practice Question

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



0	1
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The response calculates the opportunity cost as 50 sundaes and shows the work $(110 - 60 = 50)$.

Part (d)

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



0	1
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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)).

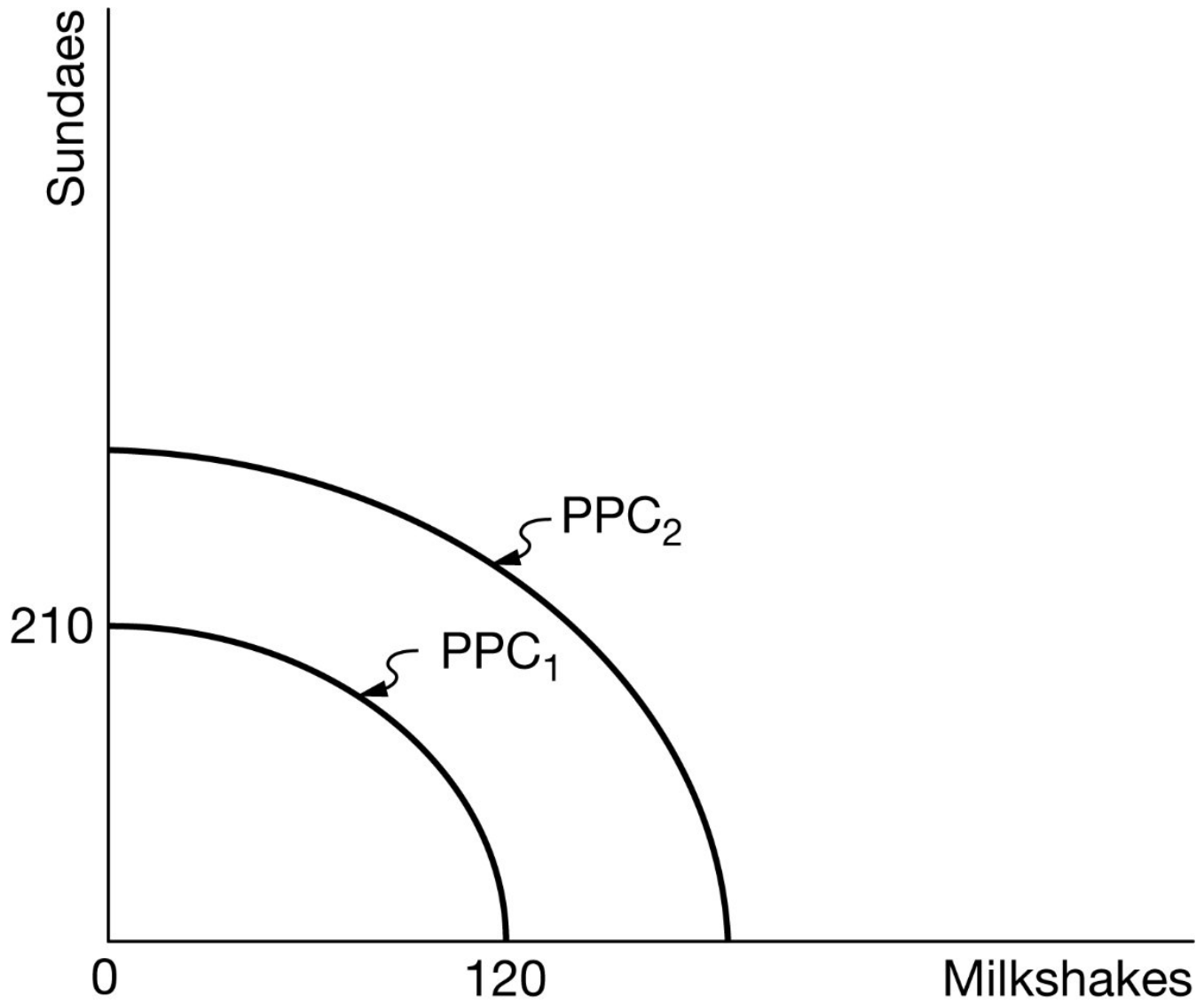


0	1
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The response correctly shows the effect of the change with an outward shift of the store's *PPC*

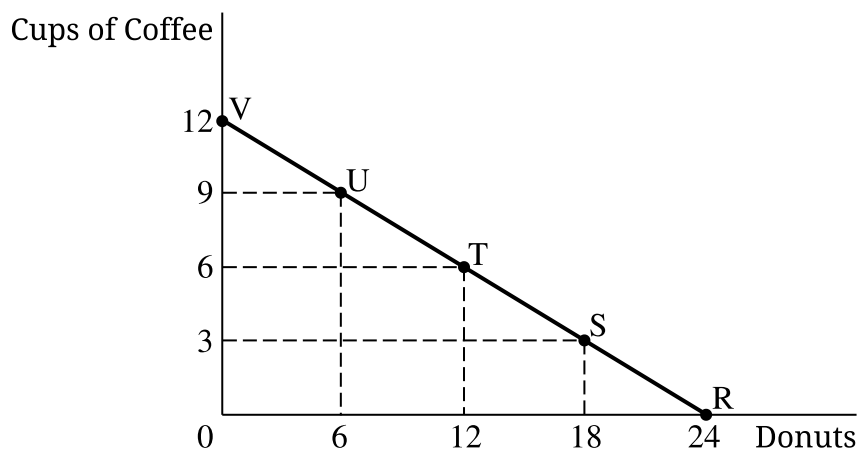
(*PPC*₂) that shows increasing quantities of the two products.

Units 1.1-1.3 Practice Question



Units 1.1-1.3 Practice Question

The following questions are based on the graph provided, which shows the combinations of donuts and cups of coffee that the country of Deetopia could produce using its currently available resources.



55. Which of the following must be true?
- (A) Combination T is allocatively efficient because customers will consume both donuts and cups of coffee.
 - (B) Combination V is allocatively efficient because Deetopia has an absolute advantage in producing cups of coffee.
 - (C) The opportunity cost of producing 1 cup of coffee is 2 donuts. ✓
 - (D) The opportunity cost of producing 1 cup of coffee is 6 donuts.
 - (E) The opportunity cost of producing 1 donut increases as more cups of coffee are produced.

Answer C

Correct. The absolute value of the slope of the production possibilities curve ($\frac{1}{2}$ in this case) demonstrates the opportunity cost of producing 1 more donut (that is, $\frac{1}{2}$ cup of coffee); thus, the opportunity cost of producing one more cup of coffee is the reciprocal of the absolute value of the slope of the production possibilities curve, which is 2 donuts.

Units 1.1-1.3 Practice Question

56. Suppose the country of Deetopia produces 6 cups of coffee and 12 donuts. Which of the following must be true?
- (A) The combination leaves some resources unemployed.
 - (B) The combination has the highest opportunity cost in production.
 - (C) The combination is productively efficient. ✓
 - (D) The combination is neither productively nor socially efficient.
 - (E) The combination cannot be produced with the given amount of resources.

Answer C

Correct. Productive efficiency is achieved when goods and services are produced at the lowest cost. Any point on the production possibilities curve is productively efficient, because it is impossible to produce more of one good without producing less of the other. Therefore, producing 6 cups of coffee and 12 donuts is productively efficient because it is a point on the production possibilities curve.

57. Which of the following statements describes an economy confronting scarcity?
- (A) If more of one good is produced, less of another good must be produced. ✓
 - (B) An economy can produce a limitless amount of all goods.
 - (C) All individuals are able to satisfy their consumption desires.
 - (D) Scarcity is eliminated by government provision of goods.
 - (E) Scarcity only exists as a problem when there is more than one good to produce.

Answer A

Correct. With scarce resources that are fully employed, if more of one good is produced, less of another good must be produced. Scarcity means that society faces trade offs.

Units 1.1-1.3 Practice Question

58. Which of the following best explains why individuals and societies must make choices when presented with alternatives?
- (A) People possess limited knowledge.
 - (B) Resources are scarce. ✓
 - (C) People cannot agree on societal goals.
 - (D) Resources are not fully employed.
 - (E) People are more interested in their own well-being than in society's well-being.

Answer B

Correct. The basic economic problem is how to allocate scarce resources to meet unlimited human wants.

59. People must make choices among available options because people
- (A) are irrational
 - (B) have limited wants
 - (C) have limited resources ✓
 - (D) are not provided goods by the government
 - (E) do not receive positive benefits from consuming certain goods

Answer C

Correct. People need to make choices because resources are scarce. In order to be able to use these limited resources people need to make rational decisions.

Units 1.1-1.3 Practice Question

60. Which of the following describes why scarcity exists in an economy?
- (A) There are more resources available than are being used.
 - (B) Society's resources are underutilized.
 - (C) Society's wants exceed its available resources. ✓
 - (D) Prices of available resources are lower than consumers' willingness to pay.
 - (E) Prices of available resources are higher than consumers' willingness to pay.

Answer C

Correct. Scarcity refers to the idea that individuals and societies must make choices concerning how to allocate their limited resources to address their unlimited wants.

61. Scarcity leads to which of the following?
- (A) Unemployed resources
 - (B) Absolute advantage
 - (C) Opportunity cost ✓
 - (D) Efficiency
 - (E) Monopolies

Answer C

Correct. Scarcity results from limited resources and unlimited wants and needs. Thus, scarcity results in opportunity costs (trade-offs) in production and consumption.

Units 1.1-1.3 Practice Question

62. 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

Answer B

Correct. With a greater amount of the input, labor, the production possibilities curve can shift out in a parallel way, showing economic growth.

63. The study of economics is based on the premise that
- (A) goods and services are scarce but capital is unlimited
 - (B) the growth of government is limited but resources are unlimited
 - (C) natural resources are scarce but labor is unlimited
 - (D) factors of production are scarce but goods and services people desire are unlimited ✓
 - (E) consumer products are scarce but resources are unlimited

Answer D

Correct. Economics is a social science that studies how individuals and societies allocate their limited resources to achieve their unlimited wants. Thus, the study of economics assumes that factors of production are scarce, and people have unlimited desire for goods and services.

Units 1.1-1.3 Practice Question

64. Assume an economy is using all its available resources efficiently to produce only two goods, X and Y. As more of good X is produced, what happens to the production of good Y?
- (A) The production of good Y also increases.
 - (B) More resources will need to be devoted to producing good Y.
 - (C) Less of good Y is produced as resources move from producing good Y to producing good X. ✓
 - (D) The economy can only produce more of good X if there is more labor available.
 - (E) There will be no loss of good Y produced.

Answer C

Correct. The economy uses all its resources fully and efficiently. If greater production of good X is desired than the current level, then resources need to be moved from the production of good Y to the production of good X. This situation illustrates the economic trade-offs that arise from the lack of sufficient resources. For every unit increase in the production of good X, some units of good Y need to be given up. Thus more X means less of good Y will be produced.