Unit 1.1, 1.2 and 1.3 QUIZ

1. 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.

2. 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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3. 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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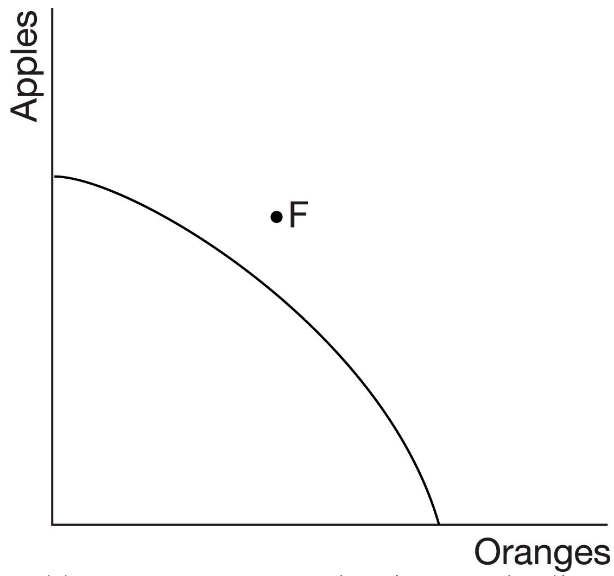
4.



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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5. 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.

6.

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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7. 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.

8. Because of conflict and political instability in Country Y, millions of its citizens emigrate to Country X. Which of the following best explains what will happen to Country X?

(A) Country X's PPC will not change, but its consumption of goods will decrease.

(B) Country X's production will move to a point inside its PPC, indicating slower growth.

(C) Country X's production will move to a point on its PPC at which it produces only consumer goods.

(D) Country X's PPC will shift outward over time.

(E) Country X's PPC will shift inward over time.

Answer D

Correct. Economic growth through more resources will cause an outward shift in the PPC . Emigration will increase Country X's labor force. The growth in the labor force is one factor that causes economic growth.

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9. *I*nclude 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 ✓

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.

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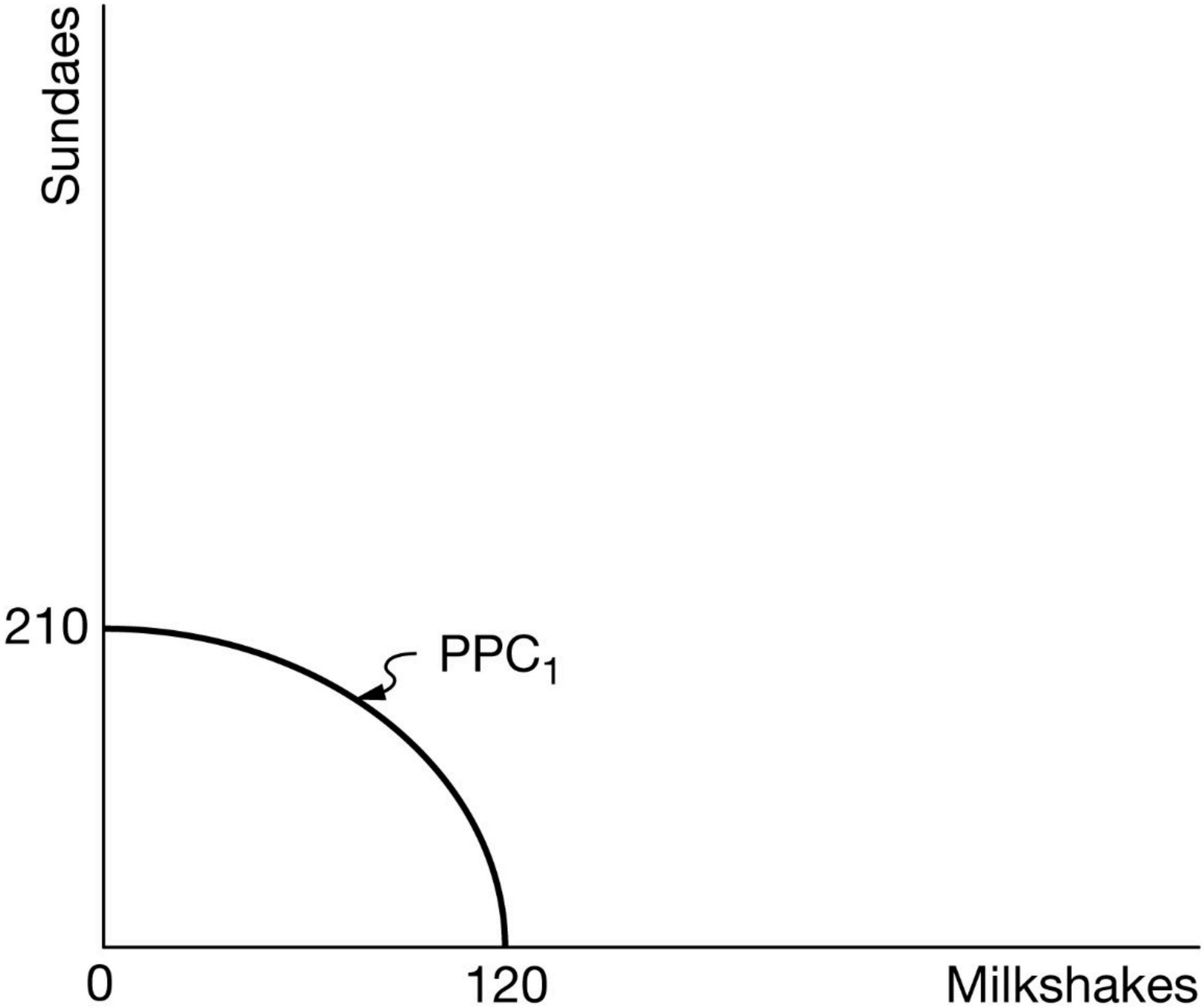

Part (b)

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)

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

0	1

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

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

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.

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