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
   a. are acting out of generosity.
   b. are acting because they like you.
   c. are required to do so by government.
   d. do so because they get something in return.

2. A country's consumption possibilities frontier can be outside its production possibilities frontier
   a. with trade.
   b. by allocating resources differently.
   c. by producing a greater variety of goods and services.
   d. by lowering unemployment in the country.

Table 3-1

<table>
<thead>
<tr>
<th></th>
<th>Meat</th>
<th>Potatoes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Rancher</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</table>

3. Refer to Table 3-1. For the Rancher, the opportunity cost of 1 pound of meat is
   a. 5 hours of labor.
   b. 1 hour of labor.
   c. 1/4 pound of potatoes.
   d. 4 pounds of potatoes.
4. Refer to Graph 3-1. For Robinson Crusoe the opportunity cost of 1 pound of fish is
   a. 2 pounds of coconuts.
   b. 1/2 pound of coconuts.
   c. 4 pounds of coconuts.
   d. 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 __________.
   a. coconuts, fish
   b. both goods, coconuts
   c. fish, coconuts
   d. neither good, fish

6. Refer to Table 3-2. Nancy has a comparative advantage in __________ and Roger has a comparative advantage in __________.
   a. cloth, perfume
   b. cloth, both goods
   c. cloth, neither good
   d. 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 ________.
   a. both goods, videos
   b. neither good, videos
   c. books, neither good
   d. both goods, books

8. Refer to Graph 3-2. Nicole should specialize in __________ and Tom should specialize in __________.
   a. videos, books
   b. books, videos
   c. books, neither good
   d. both goods, videos

Table 3-3

<table>
<thead>
<tr>
<th></th>
<th>Amount produced in 2400 hours:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cars</td>
</tr>
<tr>
<td>U.S.</td>
<td>60</td>
</tr>
<tr>
<td>Japan</td>
<td>48</td>
</tr>
</tbody>
</table>

9. Refer to Table 3-3. Japan has an absolute advantage in __________ and the U.S. has a comparative advantage in __________.
   a. both goods, cars
   b. both goods, neither good
   c. cars, airplanes
   d. 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 _________.
   a. airplanes, airplanes
   b. cars, airplanes
   c. airplanes, cars
   d. 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?
   a. cars
   b. both airplanes and cars
   c. airplanes
   d. The U.S. should buy both products from Japan.

12. David Ricardo
   a. wrote books opposing the ideas of Adam Smith.
   b. argued in favor of Britain following a free-trade policy.
   c. was the founder of modern economics.

13. The gains from trade are
   a. higher from trade between a rich nation and a poor nation.
   b. based on different wage rates between nations.
   c. a result of more efficient resource allocation.
   d. based on the principle of absolute advantage.

Table 3-4

Use the accompanying table to answer the following questions:

<table>
<thead>
<tr>
<th></th>
<th>Cheese</th>
<th>Bread</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Spain</td>
<td>20</td>
<td>5</td>
</tr>
</tbody>
</table>

14. Refer to Table 3-4. England has an absolute advantage in ________ and Spain has a comparative advantage in _________.
   a. bread, cheese
   b. bread, neither good
   c. cheese, both goods
   d. 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 _________.
   a. bread, cheese
   b. bread, bread
   c. cheese, cheese
   d. cheese, bread