



Faculty of Commerce- English Section

Department of Economics

## Principles of Economics

Dr. Doaa Akl Ahmed

### Tutorial on Chapter 2 (Economics, 10e (Parkin))

#### Question 1: Choose the best answer for the following questions:

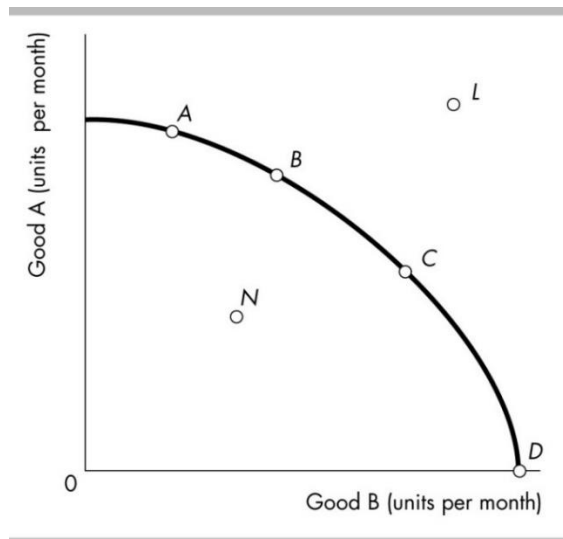
1. The production possibilities frontier
  - A) shows the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology.
  - B) shows how many goods and services are consumed by each person in a country.
  - C) is a model that assumes there is no scarcity and no opportunity cost.
  - D) is a graph with price on the vertical axis and income on the horizontal axis.
2. The production possibilities frontier represents
  - A) the maximum amount of labor and capital available to society.
  - B) combinations of goods and services among which consumers are indifferent.
  - C) the maximum levels of production that can be attained.
  - D) the maximum rate of growth of capital and labor in a country.
3. Production efficiency occurs when production \_\_\_\_\_.
  - A) is at a point beyond the production possibilities frontier
  - B) is on the production possibilities frontier or inside it
  - C) is at any attainable point
  - D) is on the production possibilities frontier

#### Use figure (1) to answer questions (4-6):

4. Point C on the production possibilities frontier in figure (1) illustrates
  - A) a point that achieves production efficiency.
  - B) a combination of goods and services that cannot be produced efficiently
  - C) all goods and services that are desired but cannot be produced due to scarce resources.
  - D) a production point that has underutilization of resources
5. In figure (1), which point represents an unattainable production combination of the two goods?
  - A) Point C
  - B) Point L
  - C) Point D
  - D) Point N

6. In figure (1), which point represents an attainable but inefficient production point?  
 A) Point C      B) Point N      C) Point L      D) Point D

**Figure (1)**



7. When producing goods and services along a PPF, tradeoffs exist because  
 A) not all production is efficient.  
 B) society has only a limited amount of productive resources.  
 C) buyers and sellers often must negotiate prices.  
 D) human wants and needs are limited at a particular point in time.
8. Moving from one point on the production possibilities frontier to another \_\_\_\_\_.  
 A) involves a tradeoff but does not incur an opportunity cost  
 B) involves an opportunity cost but no tradeoff  
 C) involves a tradeoff and incurs an opportunity cost  
 D) involves no tradeoff but it does incur an opportunity cost
9. As an economy's capital stock increases, the economy  
 A) generally experiences increased unemployment of other resources, such as labor.  
 B) generally decides to engage in international trade.  
 C) experiences economic growth.  
 D) gains an absolute advantage in the production of capital goods.
10. The production possibilities frontier itself illustrates  
 A) all goods that can be produced by an economy  
 B) the combination of goods and services that can be produced efficiently  
 C) all goods and services that are desired but cannot be produced due to scarce resources.  
 D) all possible production of capital goods

11. A point outside a production possibilities frontier indicates
- A) that resources are not being used efficiently.
  - B) an output combination that society cannot attain given its current level of resources and technology.
  - C) that resources are being used very efficiently.
  - D) that both goods are characterized by increasing costs.
12. Any production point outside the production possibilities frontier is
- A) unattainable.
  - B) associated with unused resources.
  - C) attainable only if prices fall.
  - D) attainable only if prices rise.
13. If an economy is operating at a point inside the production possibilities frontier, then
- A) society's resources are being inefficiently utilized.
  - B) the PPF curve will shift inward.
  - C) society's resources are being used to produce too many consumer goods.
  - D) economic policy must retard further growth of the economy.
14. A point inside a production possibilities frontier
- A) could indicate that resources are misallocated.
  - B) is more efficient than a point on the production possibilities frontier.
  - C) reflects the fact that more technology needs to be developed to fully employ all resources.
  - D) implies that too much labor and not enough capital is being used.
15. At one point along a PPF, 50 tons of coffee and 100 tons of bananas are produced. At another point along the same PPF, 30 tons of coffee and 140 tons of bananas are produced. The opportunity cost of a ton of coffee between these points is
- A)  $7/5$  of a ton of bananas per ton of coffee.
  - B)  $1/2$  of a ton of bananas per ton of coffee.
  - C)  $5/7$  of a ton of bananas per ton of coffee.
  - D) 2 tons of bananas per ton of coffee.

**Table (1) lists six points on the production possibilities frontier for grain and cars. Use table (1) to answer questions (16)- (19):**

**Table (1)**

Point	Production of grain (tons)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

16. . Given this information, which of the following combinations is unattainable?
- A) 6 tons of grain and 18 cars
  - B) 4 tons of grain and 26 cars
  - C) 2 tons of grain and 27 cars
  - D) 7 tons of grain and 10 cars

17. From table (1), you can conclude that production is inefficient if this economy produces
- A) 6 tons of grain and 18 cars.                      B) 4 tons of grain and 26 cars.  
 C) 2 tons of grain and 27 cars.                      D) 8 tons of grain and 10 cars.
18. From table (1), What is the opportunity cost of producing the 5th ton of grain?
- A) 16 cars per ton of grain                      B) 6 cars per ton of grain  
 C) 3 cars per ton of grain                      D) 2 cars per ton of grain
19. From table (1), what is the opportunity cost of producing the 26th car?
- A) 2 tons of grain per car                      B) 4 tons of grain per car  
 C) 0.25 tons of grain per car                      D) 0.5 tons of grain per car
20. The principle of decreasing marginal benefit implies that the
- A) additional benefit from obtaining one more of a good or service decreases as more is consumed.  
 B) additional benefit from obtaining one more of a good or service increases as more is consumed.  
 C) total benefit from obtaining more of a good or service decreases as more is consumed.  
 D) total benefit from obtaining more of a good or service remains the same as more is consumed.
21. Susan likes to drink sodas. The \_\_\_\_\_ soda Susan drinks, the \_\_\_\_\_ of the last soda.
- A) more; higher the marginal benefit  
 B) less; higher the opportunity cost  
 C) less; lower the marginal benefit  
 D) more; lower the marginal benefit
22. Marginal benefit curves slope \_\_\_\_\_ and marginal cost curves slope \_\_\_\_\_.
- A) upward; upward  
 B) upward; downward  
 C) downward; downward  
 D) downward; upward
23. When we cannot produce more of any good without giving up some other good that we value more highly, we have achieved
- A) production.                      B) equity.                      C) allocative efficiency.  
 D) the production point where the marginal benefit exceeds the marginal cost by as much as possible.
24. Resource use is allocatively efficient
- A) when marginal benefit equals marginal cost.  
 B) whenever marginal benefit exceeds marginal cost.  
 C) whenever marginal cost exceeds marginal benefit.  
 D) when the maximum possible quantity is being produced.

25. An expansion of the production possibilities frontier is
- A) called economic growth.
  - B) proof that scarcity is not a binding constraint.
  - C) a free gift of nature.
  - D) something that has occurred only rarely in history.
26. Economic growth is the result of all of the following except
- A) technological change.
  - B) capital accumulation.
  - C) opportunity cost.
  - D) investment in human capital.
27. An increase in the production of capital goods
- A) must increase the current production of consumer goods.
  - B) must decrease the future production of consumer goods.
  - C) shifts the production possibilities frontier inward in the future.
  - D) shifts the production possibilities frontier outward in the future.
28. The tradeoff between current consumption and the production of capital goods also reflects a tradeoff between
- A) the future production of capital goods and future consumption of goods.
  - B) economic growth and technological change.
  - C) satisfying today the needs of the poor and the wants of the wealthy.
  - D) current consumption and future consumption.
29. Because of the existence of comparative advantage, the total output of goods is higher when each producer
- A) produces many different goods.
  - B) produces at the midpoint of its PPF.
  - C) specializes in the production of one good or a few goods.
  - D) makes both intermediate and final goods.
30. A person has a comparative advantage in producing a particular good if that person
- A) has higher productivity in producing it than anyone else has.
  - B) can produce it at lower opportunity cost than anyone else can.
  - C) has less desire to consume that good than anyone else has.
  - D) has more human capital related to that good than anyone else has.

Use table (2) to answer questions (31)- (34):

Table (2)

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

31. In table (2), country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. The opportunity cost of producing more of
- good X is the same for both countries.
  - good Y is the same for both countries.
  - good X is lower in country A.
  - good Y is lower in country A.
32. In table (2), country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. Regarding the production of good X
- country A has an absolute advantage.
  - country B has an absolute advantage.
  - country A has a comparative advantage.
  - country B has a comparative advantage.
33. In table (2), country B is producing 4 units of X and 6 units of Y. For country B, the opportunity cost of producing an additional unit of X is
- 4 units of Y per unit of X.
  - 2 units of Y per unit of X.
  - $3/2$  units of Y per unit of X.
  - 1 unit of Y per unit of X.
34. In table (2), country B is producing 4 units of X and 6 units of Y. For country B, the opportunity cost of producing an additional unit of Y is
- $1/2$  unit of X per unit of Y.
  - $2/3$  unit of X per unit of Y.
  - 2 units of X per unit of Y.
  - 3 units of X per unit of Y.

### Short answer questions:

- A production point beyond the production possibilities frontier represents what?
- "If Mexico is currently operating at a point inside its production possibilities frontier, then there are unemployed resources in Mexico." Is this statement true or false? Briefly explain your answer.
- Explain the connection between opportunity cost and the PPF.
- What is marginal cost? How is it measured?
- What is marginal benefit? How is it measured?