

Economics 101
Spring 2000
Section 4 - Hallam
Quiz 1

1. Which of the following is a correct statement about making a table?
 - a. Varnish is an expendable and a saw is capital.
 - b. Nails are a capital service.
 - c. The time supplied by skilled labor is a capital service.
 - d. a and c are true.
 - e. a, b and c are true.

2. Economics is the
 - a. study of choice with constraints.
 - b. study of choices by businesses.
 - c. study of how to maximize profit.
 - d. study of choice with resource scarcity.
 - e. a and d above.

3. Opportunity cost is
 - a. the cost of the time needed to make a choice.
 - b. the cost of the accountant hired to keep track of costs.
 - c. the cost of the alternative opportunity given up when a choice is made.
 - d. the cost of finding an opportunity.

4. Most individuals would prefer which of the following situations assuming that their only expenses in life are housing, food and clothing.
 - a. an annual income of \$32,000 with monthly housing, food and clothing expenses of \$2,000.
 - b. an annual income of \$45,000 with monthly housing, food and clothing expenses of \$3,000.
 - c. an annual income of \$56,000 with monthly housing, food and clothing expenses of \$4,000.

5. The principle of increasing opportunity cost (which implies that the production possibility frontier is concave to the origin) implies that
 - a. as we produce more of a product, the opportunity cost of producing it becomes less.
 - b. as we produce more of a product, the opportunity cost of producing it becomes greater.
 - c. as we produce more of a product, the opportunity cost of producing it stays the same.

6. Which of the following is a reasonable method to construct the production possibility frontier?
 - a. set a level for all inputs, pick a level of one of the two outputs, find all feasible levels of the other output for this level of the first output, and then repeat for other levels of the first output.
 - b. set a level for all inputs, pick a level of one of the two outputs, find the maximum level of the other output for this level of the first output, and then repeat for other levels of the first output.
 - c. pick a level of the two outputs and then find all levels of inputs that will produce this specific output combination.

7. Which of the following is a positive statement?
 - a. Affirmative action should be employed to increase the opportunities of minorities.
 - b. The Grand Canyon must be preserved for our grandchildren.
 - c. The price of a Big Mac in campus town is \$1.49.
 - d. My model of the decision process of the typical college student implies that males under the age of 20 will exercise twice a week.
 - e. Bill Bradley should be the next president of the United States.

Consider the following data

Chairs	Tables
50	0
46	7
42	13
37	18
30	22
22	25
12	27
0	28

8. What is the opportunity cost of 4 more chairs when the firm is already producing 42?
- 42 tables
 - 5 tables
 - 4 tables
 - 3 tables
 - 6 tables
9. Robinson Crusoe and Man Friday live on an island. The following table represents their output in a day of work.

	Fish	Cassava
Robinson Crusoe	4	20
Man Friday	3	24

Which of the following statements is true.

- Friday has an absolute advantage in both products and a comparative advantage in digging cassava.
 - Crusoe has an absolute advantage in both products and a comparative advantage in digging cassava.
 - Friday has an absolute advantage in cassava and a comparative advantage in cassava.
 - Crusoe has a comparative advantage in fishing and a comparative advantage in cassava.
10. When a producer is on the boundary of the producible output set (production possibility frontier) the following is true.
- He can obtain more of both outputs with the same technology by using resources more efficiently.
 - He can obtain more of one output only by giving up some of the other output.
 - He is indifferent between any of the points in this efficient set.
 - He needs to reduce the level of one of the outputs.

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Answers

1. d
2. e
3. c
4. a
5. b
6. b
7. c
8. e
9. c
10. b