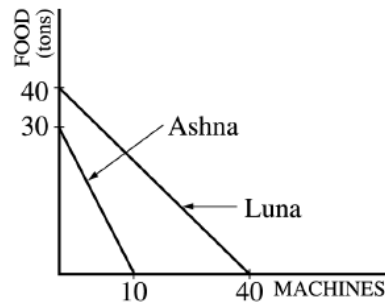


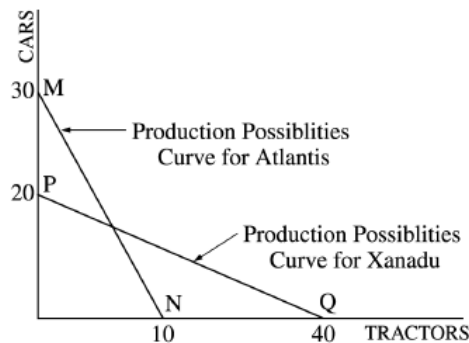
Unit 1 Study Guide

Macro 2003B



2. Using equal amounts of resources, the countries of Ashna and Luna can each produce any combination of food and machines described by their production possibilities curves above.
 - (a) Which country has an absolute advantage in the production of machines? Explain.
 - (b) Which country has an absolute advantage in the production of food? Explain.
 - (c) Which country has a comparative advantage in the production of machines? Explain.
 - (d) With trade between these two countries, which country will import food? Explain.
 - (e) Give an example of terms of trade acceptable to both countries.

Macro 2003



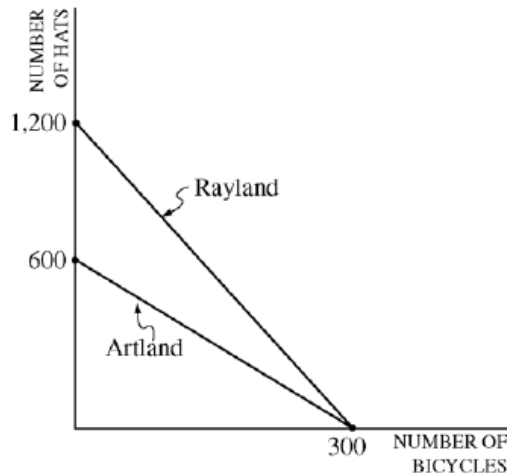
3. Assume that two countries, Atlantis and Xanadu, have equal amounts of resources. Atlantis can produce 30 cars or 10 tractors or any combination, as shown by the line MN in the figure above. Xanadu can produce 20 cars or 40 tractors or any combination, as shown by the line PQ in the figure above.
 - (a) Which country has an absolute advantage in the production of tractors? Explain how you determined your answer.
 - (b) Which country has a comparative advantage in the production of cars? Using the concept of opportunity cost, explain how you determined your answer.
 - (c) If the two countries specialize and trade with each other, which country will import cars? Explain why.
 - (d) If the terms of trade are such that one car can be exchanged for one tractor, explain how Atlantis will benefit from such trade.

2004B

OUTPUT PER WORKER PER DAY		
Country	Units of Cloth	Units of Food
Newland	10	2
Beeland	10	1

3. The table above gives the production alternatives of two nations that are producing cloth and food, using equal amounts of resources.
- (i) Calculate the opportunity cost of producing a unit of cloth in Newland.
(ii) Calculate the opportunity cost of producing a unit of food in Beeland.
 - (i) Which nation has the comparative advantage in cloth production?
(ii) Which nation has the comparative advantage in food production?
 - Now assume that the productivity of Beeland's workers triples for each good.
 - Which country has a comparative advantage in food production?
 - Explain how you determined your answer.

Macro 2008



3. The diagram above shows the production possibilities curves for two countries: Artland and Rayland. Using equal amounts of resources, Artland can produce 600 hats or 300 bicycles, whereas Rayland can produce 1,200 hats or 300 bicycles.
- Calculate the opportunity cost of a bicycle in Artland.
 - If the two countries specialize and trade, which country will import bicycles? Explain.
 - If the terms of trade are 5 hats for 1 bicycle, would trade be advantageous for each of the following?
 - Artland
 - Rayland
 - If productivity in Artland triples, which country has the comparative advantage in the production of hats?

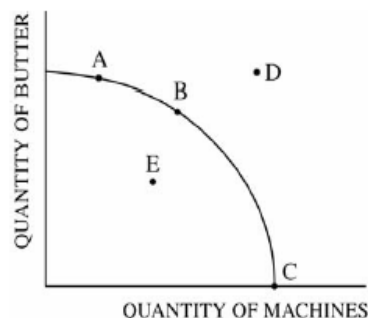
1. Scarcity is correctly described by which of the following statements?
- Scarcity exists if there are more uses for resources than can be satisfied at one time.
 - Scarcity exists if decisions must be made about alternative uses for resources.
 - Scarcity would not exist in a society in which people 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

	Fish	Wheat
Country A	10 labor-hours	20 labor-hours
Country B	20 labor-hours	60 labor-hours

1. The table above indicates labor-hours needed to produce a single unit of each of two commodities in each of two countries. If labor is the only factor used to produce the commodities, which of the following statements must be correct?
- Country A has an absolute advantage in the production of both commodities, but a comparative advantage in the production of wheat.
 - Country B has an absolute disadvantage in the production of both commodities, but a comparative advantage in the production of fish.
 - Mutually advantageous trade can occur between the two countries when 2.5 units of fish are exchanged for 1 unit of wheat.
- (A) I only
 (B) II only
 (C) III only
 (D) I and III only
 (E) II and III only

17. 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.

2. Which of the following is the defining characteristic of a capitalistic economy?
- (A) Well-functioning capital markets
 (B) Private ownership and protection of property rights
 (C) Fair distribution of income and low income taxes
 (D) Equality of opportunity
 (E) Efficient allocation of resources



1. 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.
46. Karen works part-time at a local convenience store and earns \$10 per hour. She wants to spend next Saturday afternoon attending a music concert. The full price of a concert ticket is \$75, but Karen was able to get a discounted price of \$50 from a friend who purchased the ticket but has become unable to attend. If Karen took 4 hours off from her job to attend the concert, what was her opportunity cost of attending the concert?
- (A) \$40
 (B) \$50
 (C) \$75
 (D) \$90
 (E) \$115