

Chapter 2

Put into practice questions

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Calculate the opportunity cost of the fifth unit of B in terms of the numbers of units of A Sacrificed.

For the fifth unit of B, 2 units of A are sacrificed.

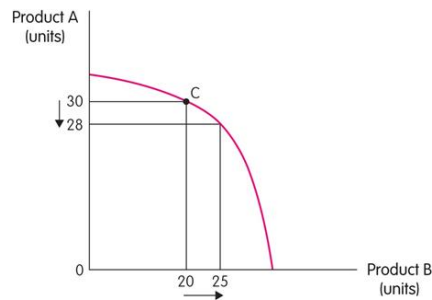
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Are the following statements true or false?

- a. The PPF shows the amount that consumers want of each product. False
- b. Any combination of goods inside the PPF is productively efficient. False
- c. Wants are limited, but resources are unlimited, which means that there is a problem of scarcity and choice. False

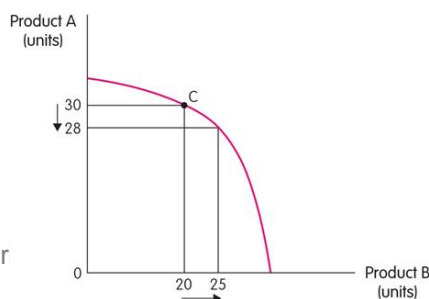
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Imagine that an economy is at point C in Figure 2.6. Within the domestic economy, what is the opportunity cost of five more units of B?



5 more unit so of B involve a sacrifice of 2 units of A; this is the opportunity cost

Assume that two units of A can be traded abroad for 12 units of B. Then, starting at C, if an economy were to give up two units of A and trade overseas, how many units of B could it now have?

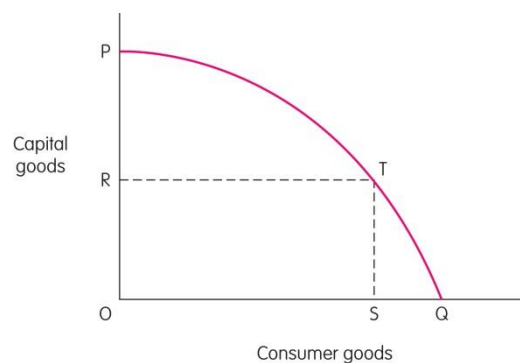


Through trade it would be possible to end up with 32 units of B

End of Chapter put into practice questions

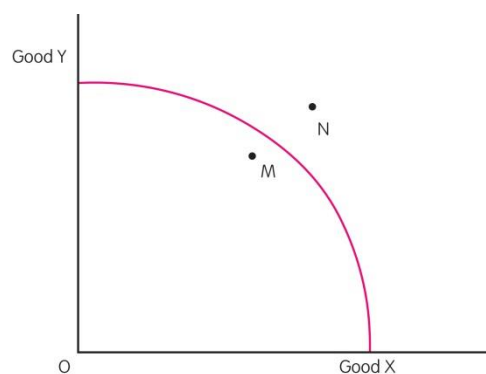
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What is the opportunity cost of producing OS consumer goods in terms of capital goods in Figure 2.10? Explain your answer.



PR these are the units sacrificed to produce OS of consumer goods

Which of the following could explain the movement from inside the production possibility frontier M to outside the frontier N in Figure 2.11? Explain your answer.



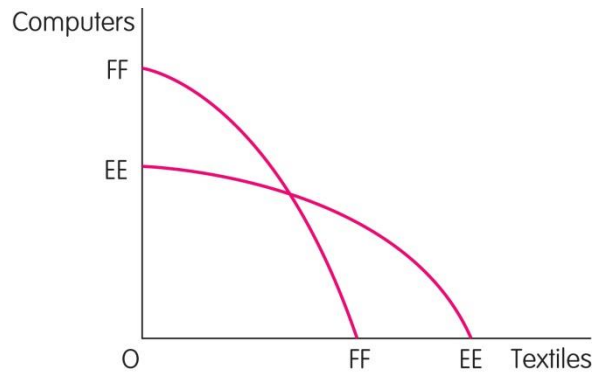
- Higher inflation
- More consumer spending
- More saving
- More exports.

Answer is C. More exports would allow the country to consume outside of the PPF

Imagine there is an improvement in technology in industry B but this has no impact on production in industry A. Show the effect of this on a production possibility frontier.

The PPF would pivot

How might an economy move from the production possibility frontier EE to FF in figure 2.12



- a. More demand for computers
- b. Lower prices for textiles
- c. More productivity in the computer industry and less in textiles
- d. Inefficient use of resources in the textile industry.

More productivity in computers would increase the production possibilities here; less productivity in Textiles would reduce production possibilities here

An economy is always productively efficient if it

- a. Continually increases its income per person
- b. Maximizes the consumption of products
- c. The allocation of resources is controlled by government
- d. Can produce more of one good only by producing less of another. Correct

The table below shows the production possibilities for a firm producing X and Y. As production of Y increases, the opportunity cost of such production, in terms of X

Output of X	Output of Y
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0	200
1	180
2	140
3	80
4	0

- a. Remains constant
- b. Falls
- c. Rises
- d. Rises and then falls.

Successively more is sacrificed as more of X is produced