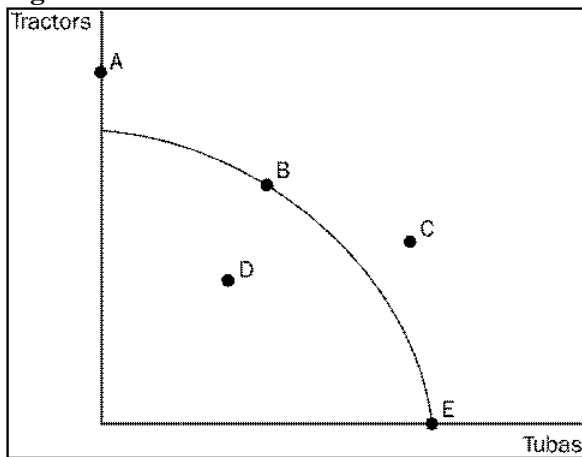


Principles of Macroeconomics Homework Assignment 2

Instruction: Log in GeorgiaView and submit your answers.

- _____ 1. Adam Smith's book *The Wealth of Nations* was published in
- 1692.
 - 1816.
 - 1776.
 - 1936.
- _____ 2. The invisible hand works to promote general well-being in the economy primarily through
- government intervention.
 - the political process.
 - altruism.
 - people's pursuit of self-interest.

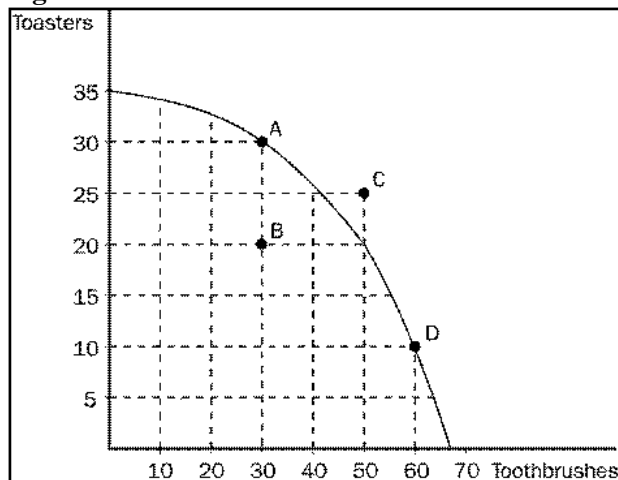
Figure HW 2-1



- _____ 3. **Refer to Figure HW 2-1.** The economy has the ability to produce at which point or points?
- A, B, D, E
 - B, D, E
 - D, C
 - D
- _____ 4. **Refer to Figure HW 2-1.** Which point represents the situation in which the economy is producing its maximum possible quantity of tubas?
- A
 - B
 - C
 - E
- _____ 5. **Refer to Figure HW 2-1.** At which point or points can the economy *not* currently produce?
- A, C, D
 - C
 - A
 - A, C
- _____ 6. **Refer to Figure HW 2-1.** Efficient production is represented by which point or points?
- B, E
 - A, B, E
 - D
 - C
- _____ 7. **Refer to Figure HW 2-1.** Inefficient production is represented by which point or points?
- A, B
 - D, E
 - A, C
 - D

8. Production Possibilities Frontiers are usually bowed outward. This is because
- the same resources can be used to produce both goods.
 - resources are specialized, that is, some are better at producing particular goods rather than other goods.
 - of the effects of technological change.
 - it reflects the fact that the opportunity cost of producing a good decreases as more and more of that good is produced.

Figure HW 2-2



9. Refer to Figure HW 2-2. If the economy moves from point A to point D, the opportunity cost is
- 60 toothbrushes.
 - 30 toasters.
 - 20 toasters.
 - 30 toothbrushes.
10. Refer to Figure HW 2-2. The opportunity cost of obtaining 15 additional toasters by moving from point D to point C is
- 10 toothbrushes.
 - 20 toothbrushes.
 - 30 toothbrushes.
 - none of the above; the economy cannot move from point D to point C.
11. Refer to Figure HW 2-2. The opportunity cost of obtaining 10 additional toasters by moving from point B to point A is
- 10 toothbrushes.
 - 20 toothbrushes.
 - 30 toothbrushes.
 - zero, since the economy has the additional resources to produce 10 additional toasters without producing less toothbrushes.
12. Refer to Figure HW 2-2. Suppose the economy is producing at point B. Which of the following would be most likely to occur?
- The economy lacks the resources to produce more toothbrushes and toasters.
 - There is unemployment in the economy.
 - Inflation is in the pipeline in this economy.
 - Any of the above statements would be a legitimate explanation for this situation.
13. Which of the following describes the law of increasing opportunity cost?
- As an economy chooses to produce more of one good; it gives up decreasing amounts of the other good.
 - As an economy chooses to produce more of one good; it gives up the same amounts of the other good.
 - As an economy chooses to produce more of one good; it gives up increasing amounts of the other good.
 - None of the above.

- _____ 14. Both Country X and Country Y can produce cell phones and video games. The opportunity costs per video game for X is 2 cell phones, and for Y is 5 cell phones. Which country has comparative advantage to make video games?
- Country X has comparative advantage to make video games, and Country Y has comparative advantage to make cell phones.
 - Country Y has comparative advantage to make video games, and Country X has comparative advantage to make cell phones.
 - Both Country X and Country Y have comparative advantage to make cell phones and video games.
 - Country X has comparative advantage to make video games. There is not enough information to find out which country has comparative advantage to make cell phones.
- _____ 15. Both Country X and Country Y can produce cell phones and video games. The opportunity costs per video game for X is 2 cell phones, and for Y is 5 cell phones. It would benefit both countries if
- Country X exports video games to Country Y and imports cell phones from Country Y.
 - Country Y exports video games to Country X and imports cell phones from Country X.
 - Country X and Y should not trade because there are no gains from trade.
 - Not enough information to determine the trade pattern.

Figure HW 2-3

		Without Trade		With Trade			Gains from Trade
		Production	Consumption	Production	Trade	Consumption	
U.S.	TVs	150		300	Export 125		
	Monitors	100		0	Import 100		
Canada	TVs	100		0	Import 125		
	Monitors	100		200	Export 100		

- _____ 16. **Refer to Figure HW 2-3.** If U.S. and Canada do not trade, how many TVs and monitors can the U.S. consume?
- People in the U.S. can consume 175 TVs and 125 monitors.
 - People in the U.S. can consume 300 TVs and 0 monitors.
 - People in the U.S. can consume 150 TVs and 125 monitors.
 - People in the U.S. can consume 150 TVs and 100 monitors.
- _____ 17. **Refer to Figure HW 2-3.** If U.S. and Canada specialize and trade, how many TVs and monitors can the U.S. and Canada consume after they trade?
- The U.S. can consume 300 TVs and 0 monitors; Canada can consume 0 TVs and 200 monitors.
 - The U.S. can consume 175 TVs and 100 monitors; Canada can consume 125 TVs and 100 monitors.
 - The U.S. can consume 125 TVs and 100 monitors; Canada can consume 125 TVs and 100 monitors.
 - The U.S. can consume 175 TVs and 100 monitors; Canada can consume 125 TVs and 200 monitors.
- _____ 18. **Refer to Figure HW 2-3.** If U.S. and Canada specialize and trade as the figure showed in the table, what are the gains from trade?
- Both the U.S. and Canada gain 25 TVs and 0 monitors.
 - The U.S. gains 25 TVs and 0 monitors whereas Canada gains 0 TVs and 25 monitors.
 - The U.S. gains 150 TVs and 100 monitors whereas Canada gains 100 TVs and 0 monitors.
 - The U.S. gains 175 TVs and 100 monitors whereas Canada gains 125 TVs and 100 monitors.

- _____ 19. International trade
 - a. must benefit both countries exactly the same amount.
 - b. limits a nation's ability to produce goods and services on its own.
 - c. allows a nation to consume at a point outside its production possibilities frontier.
 - d. is based on absolute advantage.
- _____ 20. When countries agree to trade,
 - a. it is guaranteed that everyone in those countries are better off.
 - b. some countries are better off; some are worse off.
 - c. each of those countries as a whole would be better off, but workers who lose their jobs due to imports might be worse off.
 - d. they suffer from job loss due to import. Therefore, countries should not trade at all.