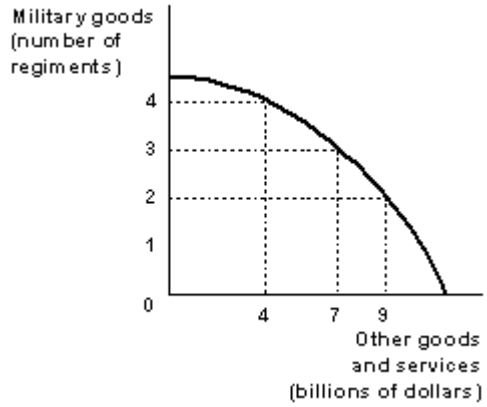
1.



The graph above shows a nation's production possibilities curve for military goods and other goods and services this year. The opportunity cost of increasing the number of military regiments from 3 to 4 this year is

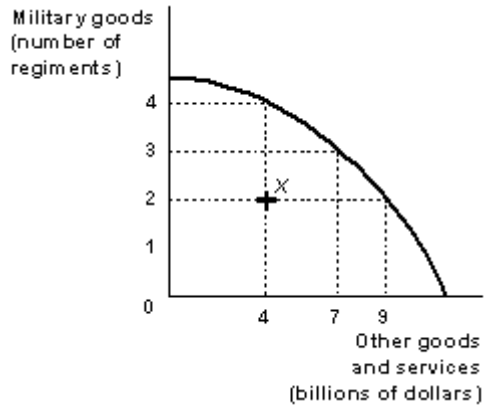
(a) 4 billion dollars of other goods and services.

(b) 2 billion dollars of other goods and services.

(c) 1 billion dollars of other goods and services.

(d) 3 billion dollars of other goods and services.

2.



The graph above shows a nation's production possibilities curve for military goods and other goods and services this year. If the nation is producing at point X this year, where output is 2 military regiments and 4 billion dollars of other goods and services, which of the following statements is TRUE?

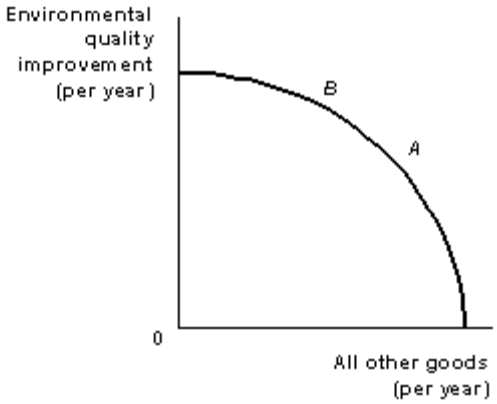
(a) Resources are fully and efficiently employed.

(b) It's possible to increase the number of military regiments this year without decreasing other goods and services produced.

(c) It's possible to increase other goods and services produced this year without decreasing the number of military regiments.

(d) Either (b) or (c).

3.



The graph above shows the production possibilities curve for environmental protection services and all other goods. Suppose more resources are devoted to environmental protection, thereby moving the economy from point A to point B. As a result of the movement from point A to point B,

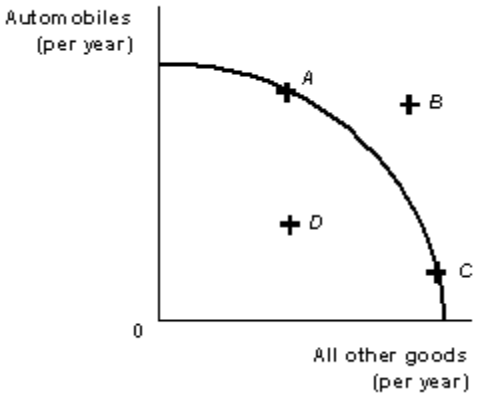
(a) the opportunity cost of additional units of environmental protection services will decrease.

(b) all other goods produced per year will increase.

(c) the opportunity cost of additional units of environmental protection services will increase.

(d) there will be no change in the opportunity cost of additional units of environmental protection services.

4.



The graph above shows a production possibilities curve for automobiles and all other goods and services. If labor and other resources aren't fully employed this year, the economy will be operating at a point like

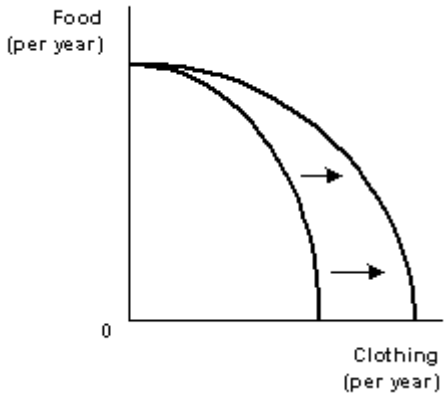
(a) C.

(b) D.

(c) B.

(d) A.

5.



Which of the following is a possible explanation for the shift of the production possibilities curve shown above?

(a) An improvement in technology used in clothing production only.

(b) A decrease in the economy's capital stock.

(c) An improvement in technology used in the production of both food and clothing.

(d) An improvement in technology used in food production only.

6.

Which of the following policies is likely to increase future economic growth of production possibilities?

(a) A decrease in investment.

(b) A change in the tax law that increases incentives to save.

(c) An increase in the proportion of aggregate income devoted to consumption.

(d) Improvements in technology that increase the productivity of workers.

(e) Either (b) or (d).

7.

Mary spends all of her income on books and bread. The price of a loaf of bread is $2, and the price of a book is $10. Mary's weekly income is $100. Suppose the prices of both books and bread double, while Mary's income remains $100 per week. Which of the following statements is TRUE?

(a) Mary can buy just as many books and loaves of bread as if her income were cut in half, and the price of a book remained $10 and the price of a loaf of bread remained $2.

(b) The opportunity cost of a loaf of bread would double.

(c) The opportunity cost of a book would double.

(d) Both (b) and (c).

8.

Suppose Jim spends all of his weekly income on gasoline and music CDs. If the prices of both CDs and gasoline fall by 5 percent this year,

(a) there will be no change in the opportunity cost of consuming CDs or gasoline for Jim.

(b) the opportunity cost of consuming a CD will fall by 5 percent.

(c) the opportunity cost of consuming gasoline will fall by 5 percent.

(d) Both (b) and (c).

9..

Karl spends all of his income on music CDs and pizza. The price of a CD is $10, and the price of a pizza is $5. The opportunity cost of buying another CD for Karl is

- (a) 2 pizzas.
- (b) 3 pizzas.
- (c) 1 pizza.
- (d) 4 pizzas.