Chapter 03: Problem Session

Multiple Choice
Identify the choice that best completes the statement or answers the question.

**Table 3-5**

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

<table>
<thead>
<tr>
<th>Labor Hours Needed to Make 1 Unit of Cheese</th>
<th>Number of Units Produced in 40 Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese</td>
<td>Bread</td>
</tr>
<tr>
<td>England</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
</tr>
</tbody>
</table>

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1. Refer to Table 3-5. Assume that England and Spain each has 40 labor hours available. We could use the information in the table to draw a production possibilities frontier for England and a second production possibilities frontier for Spain. If we were to do this, measuring cheese along the horizontal axis, then
   a. the slope of England’s production possibilities frontier would be -4 and the slope of Spain’s production possibilities frontier would be -2.
   b. the slope of England’s production possibilities frontier would be -0.25 and the slope of Spain’s production possibilities frontier would be -0.5.
   c. the slope of England’s production possibilities frontier would be 0.25 and the slope of Spain’s production possibilities frontier would be 0.5.
   d. the slope of England’s production possibilities frontier would be 4 and the slope of Spain’s production possibilities frontier would be 2.

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2. Refer to Table 3-5. The opportunity cost of 1 unit of cheese for England is
   a. 1/4 unit of bread.
   b. 1 hour of labor.
   c. 4 units of bread.
   d. 4 hours of labor.

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3. Refer to Table 3-5. The opportunity cost of 1 unit of cheese for Spain is
   a. 1/2 unit of bread.
   b. 2 hours of labor.
   c. 2 units of bread.
   d. 4 hours of labor.

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4. Refer to Table 3-5. The opportunity cost of 1 unit of bread for England is
   a. 1/4 unit of cheese.
   b. 1/4 hour of labor.
   c. 4 units of cheese.
   d. 4 hours of labor.

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5. Refer to Table 3-5. The opportunity cost of 1 unit of bread for Spain is
   a. 1/2 unit of cheese.
   b. 1/2 hour of labor.
   c. 2 units of cheese.
   d. 8 hours of labor.
6. Refer to Table 3-5. England has an absolute advantage in the production of
   a. cheese and Spain has an absolute advantage in the production of bread.
   b. bread and Spain has an absolute advantage in the production of cheese.
   c. both goods and Spain has an absolute advantage in the production of neither good.
   d. neither good and Spain has an absolute advantage in the production of both goods.

7. Refer to Table 3-5. England has a comparative advantage in the production of
   a. cheese and Spain has a comparative advantage in the production of bread.
   b. bread and Spain has a comparative advantage in the production of cheese.
   c. both goods and Spain has a comparative advantage in the production of neither good.
   d. neither good and Spain has a comparative advantage in the production of both goods.

8. Refer to Table 3-5. If England and Spain engage in trade, then England should specialize in the production of
   a. cheese and Spain should specialize in the production of bread.
   b. bread and Spain should specialize in the production of cheese.
   c. both goods and Spain should specialize in the production of neither good.
   d. neither good and Spain should specialize in the production of both goods.

9. Refer to Table 3-5. Without trade, England produced and consumed 32 units of cheese and 2 units of bread
    and Spain produced and consumed 6 units of cheese and 2 units of bread. Then, each country agreed to
    specialize in the production of the good in which it has a comparative advantage and trade 7 units of cheese for
    2.5 units of bread. As a result, England gained
   a. 0 units of cheese and 0.5 unit of bread and Spain gained 1 unit of cheese and 0.5 unit of
      bread.
   b. 1 unit of cheese and 0.5 unit of bread and Spain gained 1 unit of cheese and 0.5 unit of bread.
   c. 7 units of cheese and 2.5 units of bread and Spain gained 7 units of cheese and 2.5 units of
      bread.
   d. 33 units of cheese and 2.5 units of bread and Spain gained 7 units of cheese and 2.5 units of
      bread.

10. Refer to Table 3-5. At which of the following prices would both England and Spain gain from trade with each
    other?
    a. 16 units of bread for 16 units of cheese
    b. 16 units of bread for 24 units of cheese
    c. 16 units of bread for 48 units of cheese
    d. England and Spain could not both gain from trade with each other at any price.
### MULTIPLE CHOICE

<table>
<thead>
<tr>
<th></th>
<th>Answer</th>
<th>Points</th>
<th>Difficulty</th>
<th>Reference</th>
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<td>LOC: Understanding and applying economic models</td>
<td>TOP: Production possibilities frontier</td>
<td>MSC: Analytical</td>
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<td>TOP: Absolute advantage</td>
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