

## Practice Questions for Experiment 11

1. A nation's production possibility set shows all the combinations of total outputs that can possibly be produced with the resources available in a country without engaging in trade with another country.

Answer: True

2. If country A has an absolute advantage over country B in good 1 and country B has an absolute advantage over country A in good 2, then country B has a comparative advantage over country A in good 2.

Answer: True

3. If trade is permitted between country A and country B, country A will produce only the good in which it has a comparative advantage, and country B will produce only the good in which it has a comparative advantage.

Answer: False

4. The small island nation of Ruritania is populated by two farmers, Alf and Barney. Each farmer has 100 acres. The land can be used either for growing wheat or as pasture for beef cattle. Alf's land is better than Barney's land. Each acre that Alf plants to wheat will yield 50 bushels of wheat per year. Each acre that Alf devotes to pasture will yield 70 pounds of beef per year. Each acre that Barney plants to wheat will yield 25 bushels of wheat per year and each acre that Barney devotes to pasture will yield 30 pounds of beef per year.

- (a) Alf's farm has absolute advantage in the production of beef and comparative advantage in the production of wheat.
- (b) Barney's farm has comparative advantage in the production of beef.
- (c) Barney's farm has comparative advantage in the production of wheat.
- (d) Alf's farm has comparative advantage in both beef and wheat.
- (e) More than one of the above statements is true.

Answer: C

5. We can draw a national production possibility frontier for the island of Ruritania which shows the combinations of total amounts of beef and wheat that can be produced when resources in Ruritania are allocated efficiently. If we graph total wheat production on the horizontal axis and total beef production on the vertical axis then the production possibility frontier consists of

(a) two line segments, one of which extends from (0,10,000) to (2,500,7,000) and one of which extends from (2,500,7,000) to (7,500,0).

(b) a single line segment extending from (0,10,000) to (7,500,0).

(c) two line segments, one of which extends from (0,3,000) to (2,500,0) and one of which extends from (0,7,000) to (5,000,0).

(d) two line segments, one of which extends from (0,10,000) to (5,000,3,000) and one of which extends from (5,000,3,000) to (7,500,0).

(e) two line segments, one of which extends from (0,10,000) to (3,000,7,000) and one of which extends from (3,000,7,000) to (7,500,0).

Answer: A

6. There are 100 workers in the country of North Potato and 100 workers in the country of South Potato. Workers in either country work 50 hours per week and they can spend their time either producing food or producing clothing. It takes a North Potato worker 20 hours to produce a unit of food and 5 hours to produce a unit of clothing. It takes a South Potato worker 40 hours to produce a unit of food and 5 hours to produce a unit of clothing. People in each country believe that food and clothing must be consumed in fixed proportions, one unit of food per unit of clothing. Thus the payoff to a consumer in either country is  $\text{Minimum}\{F,C\}$  which is the minimum of the number of units of food she consumes and the number of units of clothing that she consumes. If no trade is allowed and people in North Potato consume only the goods that they produce themselves, then each week, each person in North Potato will consume:

(a) 3 units of food and 3 units of clothing.

(b) 3 units of food and 5 units of clothing.

(c) 2 units of food and 2 units of clothing.

(d) 20 units of food and 5 units of clothing.

(e) 5 units of food and 20 units of clothing.

Answer: C

**7. Which of the following statements is true of North and South Potato?**

- (a) North Potato has comparative and absolute advantage over South Potato in the production of food.**
- (b) South Potato has comparative and absolute advantage over North Potato in the production of food.**
- (c) South Potato has comparative advantage but not absolute advantage over North Potato in the production of food.**
- (d) South Potato does not have comparative advantage in either food or clothing.**
- (e) Trade between North and South Potato would harm South Potato and help North Potato.**

**Answer: A**

**8. The international production possibility frontier for North and South Potato shows all of the combinations of total food output and total clothing output that are possible for the two countries if resources are allocated efficiently. If we represent food output on the horizontal axis and clothing output on the vertical axis, the international production possibility frontier for the two Potatoes is:**

- (a) two line segments, one running from (375,0) to (125,1,000) and one running from (125,1,000) to (0,2,000).**
- (b) a single straight line segment running from (375,0) to (0,2,000).**
- (c) two line segments, one running from (500,0) to (300,1,200) and one running from (300,1,200) to (0,2,000).**
- (d) two line segments, one running from (375,0) to (250,1,000) and one running from (250,1,000) to (0,2,000).**
- (e) two line segments, one running from (250,0) to (0,1,000) and one running from (125,0) to (0,1,000)**

**Answer: D**

**9. If free international trade is allowed between North and South Potato,**

- (a) North potato will produce some clothing and some food and South Potato will produce some food and some clothing.**
- (b) North Potato will produce clothing and no food and South Potato will produce food and no clothing.**
- (c) North Potato will produce food and no clothing and South Potato will produce some food and some clothing.**
- (d) North Potato will produce food and no clothing and South Potato will produce clothing and no food.**
- (e) Both countries will produce some food and some clothing.**

**Answer: C**

**10. Hillsdale County has two farms. Jack's farm is on the hill where the soil is less fertile. Jill's farm is in the fertile valley. On Jack's farm, it takes 3 acres to raise one cow, and two acre to raise one goat. On Jill's farm, it takes 2 acres to raise a cow, and 1 acre to raise a goat. Given those requirements, which of the following statements is true?**

- (a) Jill has an absolute advantage in raising both cattle and goats, and Jack has a comparative advantage in raising cattle.**
- (b) Jill has an absolute advantage in raising both cattle and goats, and Jack has a comparative advantage in raising goats.**
- (c) Jill has an absolute advantage in raising cattle, Jack has an absolute advantage in raising goats, and Jill has a comparative advantage in cattle.**
- (d) Jack has an absolute advantage in both cattle and goats and a comparative advantage in cattle.**

**Answer: A**