

THEORY PROGRAM

FORTNIGHTLY REVIEW [FNR]

FNR: 03

Issued on: 24th January 2022

AL - 2023

Due on: 7th February 2022

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]**(01) A production possibilities frontier is a simple model of**

- (1) Resource scarcity and allocation
- (2) Market prices and output
- (3) Production and costs
- (4) Inputs and outputs
- (5) Demand and supply

(02) The fundamental reason people must choose which goods and services to buy is because;

- (1) Scarcity.
- (2) Specialization.
- (3) People engaging in exchange.
- (4) The fact there are many different economic agents.
- (5) The great abundance of free resources.

(03) The underlying reason production possibilities frontiers are likely to be bowed out (rather than linear) is,

- (1) Choices have consequences.
- (2) There is always an opportunity cost.
- (3) Some resources and people can be better used producing one good rather than another
- (4) There is always some level of unemployment.
- (5) Due to relatively scarce resources with alternative uses

(04) A student on a scholarship in university is trying to decide whether to take economics or Sociology. If they were both covered by the scholarship and if they had the same book costs, the opportunity cost of taking economics would be;

- (1) Zero, as he is on a scholarship.
- (2) Not taking sociology.
- (3) The same as sociology.
- (4) The cost of university fee and books.
- (5) The cost of economic books.

(05) The fact that we are operating at a point inside an outward bowed production possibilities frontier, indicates there might be a situation of,

- (1) Scarcity
- (2) Constant opportunity cost
- (3) Unemployment
- (4) Increasing opportunity cost
- (5) Decreasing opportunity cost

Use the following diagrams to answer questions (06) – (09):

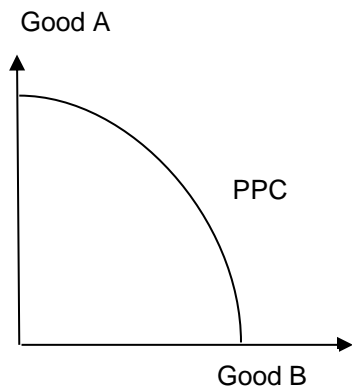


Figure (1)

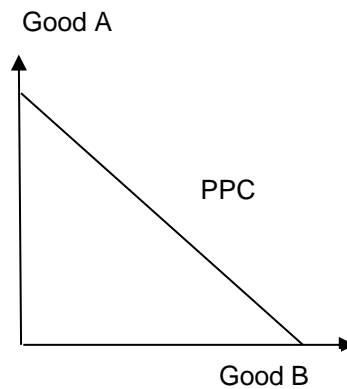


Figure (2)

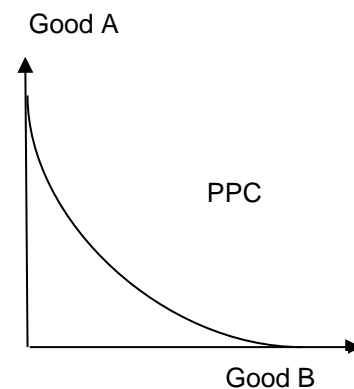


Figure (3)

(06) Which of the above PPC diagram(s) depict the existence of opportunity cost?

- (1) Figure 1
- (2) Figure 2
- (3) Figure 3
- (4) All three figures show the existence of opportunity cost.
- (5) None of the figures show the existence of opportunity cost.

(07) Which of the above PPC diagram(s) depict the existence of scarcity?

- (1) Figure 1
- (2) Figure 2
- (3) Figure 3
- (4) All three figures show the existence of scarcity.
- (5) None of the figures show the existence of scarcity.

(08) Which of the above PPC diagram(s) depict the existence of constant opportunity cost?

- (1) Figure 1
- (2) Figure 2
- (3) Figure 3
- (4) All three figures show the existence of constant opportunity cost.
- (5) None of the figures show the existence of constant opportunity cost.

(09) Which of the above PPC diagram(s) depict the existence of increasing opportunity cost?

- (1) Figure 1
- (2) Figure 2
- (3) Figure 3
- (4) All three figures show the existence of increasing opportunity cost.
- (5) None of the figures show the existence of increasing opportunity cost.

(10) Production possibilities frontier models,

- (1) The choices we make in setting prices.
- (2) The choices we make in setting output alternatives.
- (3) The choices we make in setting wages.
- (4) The choices we make in setting incomes.
- (5) The choices we make in setting profits.

(11) Assume that Rachel's various possible activities are mutually exclusive. The opportunity cost from choosing one activity equals the,

- (1) Summed value of all her alternative activities.
- (2) Summed value of all her alternative activities minus the value of the chosen activity.
- (3) Value of the next most valuable alternative activity.
- (4) Value of the next most valuable alternative activity minus the value of the chosen activity.
- (5) Summed value of all her alternative activities minus the value of the next most valuable alternative activity.

(12) Mr. Santha who owns and operates three-wheeler transportation service in Colombo is an example of _____ and earns _____.

- (1) Labour, rent
- (2) Entrepreneurship, profits
- (3) Labour, wages
- (4) Capital, rent
- (5) Labour, profits

(13) The fact that we cannot operate at a point outside a production possibilities frontier indicates there is,

- (1) Scarcity
- (2) Constant opportunity cost
- (3) Unemployment
- (4) Increasing opportunity cost
- (5) Decreasing opportunity cost

(14) Which of the following is a normative statement?

- (1) Increased government spending cannot reduce unemployment.
- (2) The imposition of import tariffs will reduce unemployment.
- (3) A policy of controlling inflation which results in increased unemployment is undesirable
- (4) The level of social security benefits is the primary factor influencing the level of unemployment
- (5) None of the above are normative statements.

(15) Which of the following goods best meets the definition of scarcity?

- (1) air
- (2) water in the ocean
- (3) water in a city
- (4) wood in a forest
- (5) sunlight

(16) You decide to take a vacation and the trip costs you Rs.12,000. While you are on vacation, you do not report to work where you could have earned Rs.7,500. The opportunity cost of the vacation is,

- (1) Rs.19,500.
- (2) Rs.12,000.
- (3) Rs.7,500.
- (4) Rs.4,500.
- (5) Rs.6,000.

(17) The ultimate cost of any choice is,

- (1) The money spent.
- (2) What someone else would be willing to pay.
- (3) The after-tax cost.
- (4) The highest-valued alternative forgone.
- (5) The satisfaction received.

(18) A resource,

- (1) Must come from the earth.
- (2) Only includes physical things.
- (3) Is anything that we consume directly or use to produce things for consumption.
- (4) Can only be used to produce things we will ultimately consume.
- (5) Both (1) and (3)

(19) Points outside the Production Possibilities Frontier,

- (1) Are Attainable.
- (2) Are Unattainable.
- (3) Represents scarcity.
- (4) Are Associated with some unemployment.
- (5) Both (1) and (3)

(20) Microeconomics is a subarea of economics that focuses on

- (1) The economies of smaller countries
- (2) The behavior of the economy as a whole
- (3) The use of statistics to quantify and test economic models
- (4) The product market loops in the circular flow model
- (5) The market behavior of individual households and firms

State whether the following statements are True (T) or False (F) (01 mark each)

01	The personal computer that my brother uses to play games on is a capital good.	
02	An entrepreneur is a person who assumes the risks associated with undertaking a business venture.	
03	An economy that operates on its production possibilities curve is efficient	
04	The production possibilities for an economy expand as the abundance of factors of production increase.	
05	An economy that is growing will display outward shifts in its production possibilities curve.	
06	An economy that has underemployed resources can still operate on its production possibilities curve.	
07	Factors of production include consumption goods.	
08	Slavery is a particular type of labor.	
09	When our hired housekeeper vacuums our home, he is providing labor.	
10	Human capital and labor are identical.	

Part – [B]**[01] Fill in the blanks****[10 marks]**

- A. The _____ of producing more capital goods is the amount of _____ sacrificed.
- B. As resources are shifted from producing one good to producing another, the opportunity cost of the second good _____, which illustrates the _____.
- C. Because a poor society must devote so many resources to the production of _____ goods, it is very difficult for it to produce _____ goods in order to encourage faster economic growth.
- D. If an economy operates inside its production possibilities frontier, it is an indication of _____ or _____ resources.
- E. A Production Possibility Curve would be Convex to the origin if the Marginal Opportunity Cost is _____ along the curve and would be Concave to the origin if the Marginal Opportunity Cost is _____.

[02] State the principal assumptions of constructing a PPM**[04 marks]****[03] State the principal features of 'Opportunity Cost'****[05 marks]****[04] Distinguish between the concepts of 'Potential Output' and 'Actual Output', make sure to state the determinants of each output concept and how they relate to a PPF****[08 marks]****[05] Briefly explain what is meant by 'Fixed Opportunity Cost' and the Reasons for such fixed opportunity cost behaviour along a PPC.****[06 marks]****[06] Briefly explain what is meant by 'Increasing Opportunity Cost' and the Reasons for such rising opportunity cost behaviour along a PPC.****[06 marks]**

[07] (A) Graph a production possibility frontier based on the given schedule

[03 marks]

Combination	Good (B)	Good (A)
A	0	24
B	2	20
C	4	16
D	6	12
E	8	8
F	10	4
G	12	0

(B) Estimate the following

- (1) The opportunity cost of increasing from point (A) to point (B) is _____ of Good ().
- (2) The opportunity cost of increasing from point (B) to point (C) is _____ of Good ().
- (3) The opportunity cost of increasing from point (G) to point (F) is _____ of Good ().
- (4) The opportunity cost of increasing from point (F) to point (E) is _____ or Good ()
- (5) The opportunity cost of increasing from point (A) to point (G) is _____ of Good ()
- (6) The opportunity cost of increasing from point (G) to point (A) is _____ of Good ()

[01 mark each]

[08] State the main reason for a country to experience a situation of 'Decreasing Opportunity Cost', when moving along their convex PPF

[02 marks]

END OF FNR [03]

