

Unit 1. Basic economic concepts

Quiz

1. Masha is thinking about going to the movies tonight to see G-Force. A ticket costs 300 rubles and she will have to cancel her tutoring job that pays 500 rubles. The cost of seeing the movie is:

- A. 300 rub.
- B. 500 rub.
- C. 800 rub.
- D. 800 rub. minus the benefit of seeing the movie.
- E. Indeterminate.

The answer is C. The cost of seeing the movie is the sum of the direct cost and the opportunity cost, and the opportunity cost here is the 500 rubles Masha could have earned tutoring.

2. On one of the first days of the school year, Sasha finds he has one hour of time in the evening to allocate. He can do one of two things. He can watch TV for one hour or he can open his economics textbook and read for an hour. The benefit of watching TV is 30; the benefit of reading about economics is 20. The cost of watching TV is _____ and the cost of reading his economics textbook is _____.

- A. 20; 30
- B. 0; 0
- C. 30; 20
- D. 20; 0
- E. indeterminate; indeterminate

The answer is A. The cost of watching TV is the opportunity cost, which equals to the forgone benefit of studying economics. The cost of studying economics equals the forgone benefit of watching TV.

3. Continuing with the information in question 2, if Sasha applies the cost-benefit principle (the action should be taken if the extra benefits from it are at least as great as the extra costs) accurately, he will:

- A. Read his textbook.
- B. Watch TV.
- C. Flip a coin because the net benefits are the same.
- D. It is not possible to make a choice using this principle.

The answer is B. The economic surplus (benefit – cost) from watching TV is $30-20=10$. The economic surplus from reading the textbook is -10 . He should choose the activity that gives him higher economic surplus.

4. Continuing with the information in question 2, suppose that instead of the first day of the semester, it is the night before the APT test. One could reasonably predict that:

- A. The benefit of watching TV will rise.
- B. The benefit of reading about economics will fall.
- C. The cost of watching TV will rise.
- D. The cost of reading economics will rise.
- E. He will continue to make the same choice.

The answer is C. As mentioned before, the cost of watching TV equals the forgone benefit of studying economics. Presumably, the benefit from studying economics before the exam is much higher than on one of the first days of school.

5. If Masha can perform a task using fewer resources than Dasha, we say that Masha:

- A. Has a comparative advantage in this task.
- B. Has an absolute advantage in this task.
- C. Has increasing opportunity costs in this task.
- D. Has a comparative disadvantage in this task.
- E. Has an absolute disadvantage in this task.

The answer is B, by definition.

6. If Masha can perform a task at a lower opportunity cost than Dasha, we say that Masha:

- A. Has a comparative advantage in this task.
- B. Has an absolute advantage in this task.
- C. Has increasing opportunity costs in this task.
- D. Has a comparative disadvantage in this task.
- E. Has an absolute disadvantage in this task.

The answer is A, by definition.

Use the following information for problems 7, 8, and 9: Vasya can photocopy 10 pages from a book or type 2 pages of handwritten text in 10 minutes. Petya can photocopy 40 pages from a book or type 3 pages of handwritten text in 10 minutes. Suppose also that both tasks are equally enjoyable to both of them.

7. Given the information above, Vasya has:

- A. an absolute advantage in photocopying and a comparative advantage in photocopying.
- B. an absolute advantage in typing and a comparative advantage in typing.
- C. no absolute advantage in either task but a comparative advantage in photocopying.
- D. no absolute advantage in either task but a comparative advantage in typing.
- E. absolute advantage in neither task nor a comparative advantage in either task.

Start solving these type of problems by making the following table:

	Photocopy, number of pages in 10 minutes	Type, number of pages in 10 minutes	Opportunity cost of photocopying 1 page, in number of pages typed	Opportunity cost of typing 1 page, in number of pages photocopied
Vasya	10	2	1/5	5
Petya	40	3	3/40	40/3

From the table you can see that Petya has absolute advantage in both photocopying and typing. But Vasya's opportunity cost of typing is lower. Thus, he has a comparative advantage in typing. **The answer is D.**

8. Given the information above, if Petya and Vasya follow the Principle of Comparative Advantage:

- A. Petya will do all the typing and Vasya will do all the photocopying.
- B. Petya will do all the photocopying and Vasya will do all the typing.
- C. Vasya will photocopy 5 pages and type 1 page, and Petya will photocopy 20 pages and type 2 pages.
- D. Petya will photocopy 5 pages and type 1 page, and Vasya will photocopy 20 pages and type 2 pages.
- E. They will not know what to do since not enough information is provided.

The answer is B. According to the Principle of Comparative Advantage, every person or country should specialize in the activities for which his or her opportunity cost is lowest.

9. Given the information above, if Vasya takes a course and learns how to type 3 pages in 10 minutes and can still photocopy 10 pages in 10 minutes, then

- A. Petya will do all the typing and Vasya will do all of the photocopying.
- B. Petya will do all the photocopying and Vasya will do all the typing.
- C. Vasya will photocopy 5 pages and type 1 page, and Petya will photocopy 20 pages and type 2 pages.
- D. Petya will photocopy 5 pages and type 1 page, and Vasya will photocopy 20 pages and type 2 pages.
- E. They will not know what to do since not enough information is provided.

Make the new table:

	Photocopy, number of pages in 10 minutes	Type, number of pages in 10 minutes	Opportunity cost of photocopying 1 page, in number of pages typed	Opportunity cost of typing 1 page, in number of pages photocopied
Vasya	10	3	3/10	10/3
Petya	40	3	3/40	40/3

We can see that the relationship between the opportunity costs has not changed, so the answer remains the same. **The answer is B.**

10. Which of the following will NOT cause a production possibilities frontier (curve) to shift outward?

- A. An increase in a country's productivity.
- B. An increase in a country's resources.
- C. An improvement in a country's technology.
- D. Specialization in the production of one good.
- E. All of the above will cause a PPF to shift outward.

The answer is D. Specialization may improve efficiency in the use of currently available resources and technology of production of the good. PPF is going to rotate around the intercept with the axis of the other good.