

# Module 1: Methodology: Demand and Supply

## 1.1.1 The Central Problem of Economics

1 Which of the following BEST defines the concept of 'scarcity'?

- (A) Goods and services to consumers are fixed in quantity (A)
- (B) Resources allocated to production are not replaced (B)
- (C) Unlimited human wants exceed the economy's limited resources (C)
- (D) The wants of society are greater than the supply of goods (D)

2 A welder can make any combination of two products as shown in the table below.

Gates	Window Frames
75	12
60	15

What is the opportunity cost of making one window frame?

- (A) 1 gate (A)
- (B) 5 gates (B)
- (C) 7 gates (C)
- (D) 8 gates (D)

3 Which of the following statements most accurately defines a 'production possibility frontier'?

- (A) The limit of the combinations of goods and services that can be produced in a country (A)
- (B) The total quantity of goods and services that a country is likely to produce (B)
- (C) The combination of goods and services that are desired by a country (C)
- (D) A graph representing an economy producing goods and services for its citizens (D)

- 4 A combination of output that is within the production possibility frontier indicates
- (A) Productive efficiency (A)
  - (B) Productive inefficiency (B)
  - (C) A minimum efficient scale of production (C)
  - (D) Pareto efficient production (D)
- 5 A production possibility frontier that is bowed outwards indicates
- (A) A discovery of new resources (A)
  - (B) Increasing opportunity costs (B)
  - (C) Diminishing opportunity costs (C)
  - (D) Constant opportunity costs (D)
- 6 A production possibility frontier that is a straight line and downward sloping indicates
- (A) Increasing opportunity costs (A)
  - (B) Decreasing opportunity costs (B)
  - (C) An absence of opportunity costs (C)
  - (D) Constant opportunity costs (D)
- 7 Which of the following situations is MOST likely to result when there are limited resources?
- (A) Citizens are forced to make choices (A)
  - (B) The wealthy citizens will control all of the resources in the country (B)
  - (C) Many firms will be forced to cease operations (C)
  - (D) Individuals of lesser means would become poorer (D)

## 1.1.1 The Central Problem of Economics (cont.)

8 In one day a baker can produce EITHER 10 loaves of bread, which are sold at \$5.00 each, or 20 cakes, which are sold at \$1.00 each. The opportunity cost of the baker staying at home for three days is

(A) 10 loaves and 20 cakes

(B) 30 loaves and 60 cakes

(C) \$210

(D) \$150

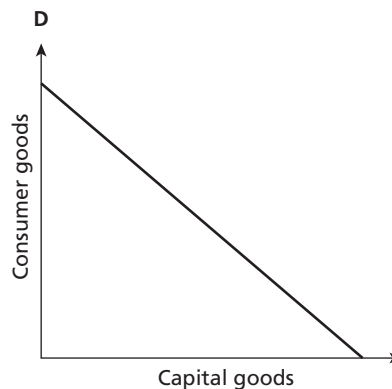
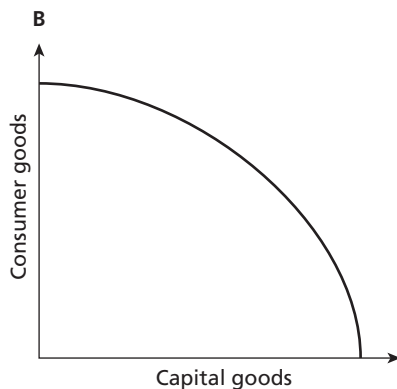
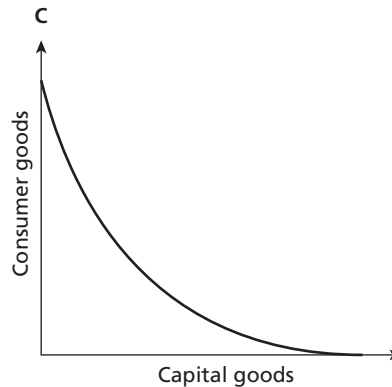
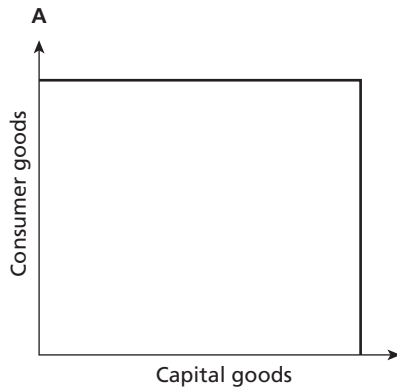
(A)

(B)

(C)

(D)

Item 9 refers to the following diagrams illustrating four types of production possibility frontiers.



9 Which diagram illustrates decreasing opportunity costs: A, B, C or D?

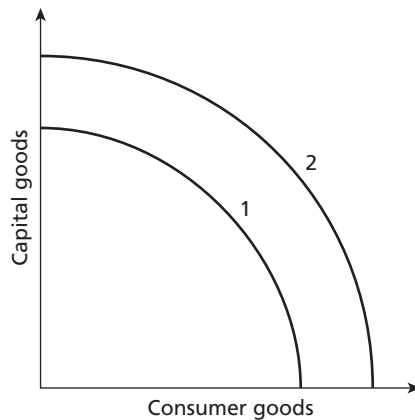
(A)

(B)

(C)

(D)

Item 10 refers to the production possibility frontier shown below.



- 10** In this economy, a rightward equidistant shift of the curve from 1 to 2 illustrates the effects of
- (A) Economic development (A)
  - (B) Economic growth (B)
  - (C) Constant returns (C)
  - (D) Recession (D)
- 11** Which of the following is an example of an economic normative statement?
- (A) A recession in the United States will cause a reduction in tourist arrivals (A)
  - (B) A rise in the prices of basic food items will cause hardship to low income earners (B)
  - (C) The government should subsidise basic food items to protect low income earners (C)
  - (D) Free tertiary education will increase student enrolment at the University of the West Indies (D)
- 12** Which of the following is an advantage of a planned economy?
- (A) Social costs and benefits influence economic decision-making (A)
  - (B) Planned economies promote competition (B)
  - (C) Resources are allocated by market forces (C)
  - (D) Prices are determined by market forces (D)