

**MULTIPLE CHOICE (3 points each)**

1. b
2. d
3. a
4. c
5. a
6. a
7. a
8. d
9. d
10. c
11. d
12. a
13. d
14. c
15. b
16. c
17. b
18. b
19. d
20. c

**TRUE/FALSE (2 points each)**

1. F
2. F
3. T
4. F
5. T
6. F
7. T
8. T
9. T
10. F

**SHORT ANSWER**

**APPLICATION/SCENARIO (10 points each)**

1. ANSWER: Whatever must be given up to obtain some item it its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time. For most students this would be the income the student gives up by not working. A student's

opportunity cost of coming to class was the value of the best opportunity the student gave up. (For most students, that seems to be sleep.)

2. ANSWER: Absolute advantage refers to productivity, as in the producer who can produce a product at a lower cost in terms of the resources used in production. Comparative advantage refers to the producer who can produce a product at a lower opportunity cost. Comparative advantage is the principle upon which trade patterns are based. Comparative advantage is based on opportunity cost, and opportunity cost measures the real cost to an individual or country of producing a particular product. Opportunity cost is therefore the information necessary for an individual or nation to determine whether to produce a good or buy it from someone else.