ANSWER KEY - HOMEWORK#1

I. Multiple Choice

1. D
2. C
3. B
4. C
5. D
6. C
7. C
8. B
9. C
10. D

II. Analytical Problems

1. The United States, by appropriating more resources to defense than does Western Europe, will realize lower growth rates over time. By using these scarce resources for defense purposes, the US faces an opportunity cost of goods and services production, which would include the production of capital goods. Western Europe, on the other hand, will see higher growth as relatively more goods and services are provided.

2. a. A linear PPF should be seen.
b. Increasing gun production from 20-30 faces an opportunity cost of 5 lbs. of butter (1/2 lbs. butter per gun)
Increasing gun production from 40-50 faces an opportunity cost of 5 lbs. of butter (1/2 lbs. butter per gun)
c. Constant at 1/2 lbs. butter per gun
d. Increasing butter production from 10-15 lbs of butter faces an opportunity cost of 10 guns (2 guns per lb. of butter)
Increasing butter production from 20-25 lbs of butter faces an opportunity cost of 10 guns (2 guns per lb. of butter)
e. Constant at 2 guns per lb. of butter
f. No, this is not possible, it is outside the PPF. This nation can produce 20 guns and 15 lbs. of butter. If it wishes to produce 6 more guns, it must give up 3 lbs. of butter (see part b above). Thus, if it produces 26 guns, it can only produce 12 lbs. of butter.
g. This is possible, but not efficient. It can produce 30 guns and 10 lbs. of butter. To produce 4 more guns, it must give up 2 lbs. of butter (see b above). Thus, it can produce 34 guns and 8 guns. Thus 34 guns and 7 lbs. of butter is feasible, but not efficient.

3. a. The opportunity cost of producing wine is 1/5 lbs. of cheese per worker in France.
The opportunity cost of producing wine is 2 lbs. of cheese per worker in Italy.
b. Italy has the comparative advantage in producing cheese.
c. Italy should specialize in cheese production; France should specialize in wine
production.