

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If Paul decides to buy a \$60 ticket to a Cirque du Soleil show rather than a \$45 ticket for a Blue Man Group performance, we can conclude that 1) \_\_\_\_\_
- A) Paul is not making a rational choice.
  - B) the marginal utility per dollar spent on Cirque du Soleil is lower than the marginal utility per dollar spent on Blue Man Group.
  - C) the marginal utility per dollar spent on Cirque du Soleil is higher than the marginal utility per dollar spent on Blue Man Group.
  - D) Paul's demand for a ticket to see Cirque du Soleil is more elastic than his demand for a ticket to see Blue Man Group.

Table 10-3

	Ice Cream Cones	Lime Fizz Soda
Quantity	<i>MU</i>	<i>MU</i>
1	30	40
2	25	35
3	20	26
4	15	18
5	10	15
6	5	7

- 2) Refer to Table 10-3. The table above shows Lee's marginal utility from consuming ice cream cones and cans of Lime Fizz Soda. Select the phrase that completes the following statement. "We can determine the number of ice cream cones and cans of Lime Fizz Soda Lee should consume to maximize his utility 2) \_\_\_\_\_
- A) by adding up the marginal utilities for ice cream cones and Lime Fizz Soda."
  - B) if we know what Lee's income is."
  - C) if we know the values of the marginal utility per dollar for ice cream cones and Lime Fizz Soda."
  - D) if we know what Lee's income is and the price of an ice cream cone and the price of a can of Lime Fizz Soda."

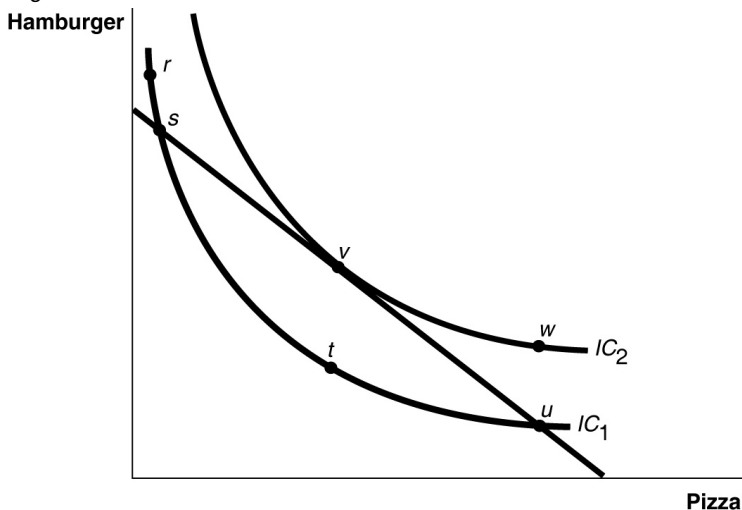
Table 10-6

Quantity of Burgers	Marginal Utility	Quantity of Pepsi	Marginal Utility
1	20	1	30
2	14	2	10
3	10	3	7
4	3	4	5
5	1	5	1
6	-5	6	0
7	-10	7	-4

Table 10-6 lists Jay's marginal utilities for burgers and Pepsi. Jay has \$7 to spend on these two goods. The price of a burger is \$2 and the price of a can of Pepsi is \$1.

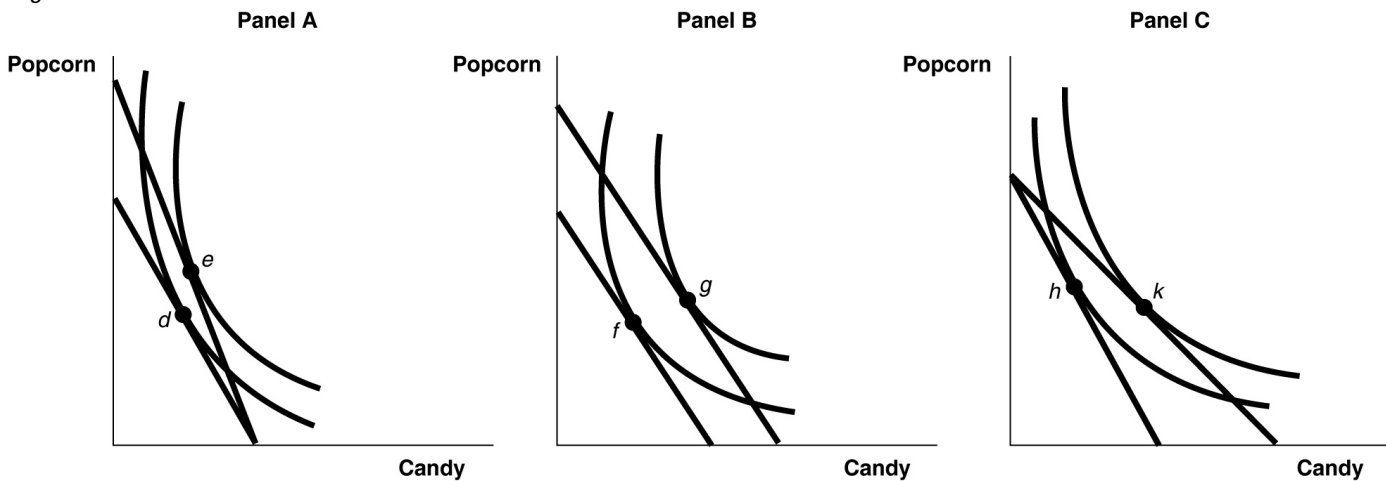
- 3) Refer to Table 10-6. If Jay can eat all the burgers he wants for free, how many burgers will he consume? 3) \_\_\_\_\_
- A) 7 burgers                      B) 6 burgers                      C) 5 burgers                      D) 3 burgers
- 
- 4) Marv Pilson has \$50 worth of groceries in a shopping cart at his local Shop 'n Save. Assume that the marginal utility per dollar of the liter bottles of soft drink in Marv's cart equals 50. The marginal utility per dollar of the boxes of cereal in Marv's cart equals 20. Marv has only \$50 to spend, but has not yet paid for his groceries. How can Marv increase his total utility without spending more than \$50? 4) \_\_\_\_\_
- A) Marv should buy more boxes of cereal and fewer bottles of soft drink.  
 B) Marv should substitute his favorite soft drink or the cereal in his cart for generic brands that have lower prices.  
 C) Marv should buy fewer boxes of cereal and more bottles of soft drink.  
 D) Marv should buy fewer boxes of cereal and fewer bottles of soft drink. He can then spend more on other items.
- 
- 5) The amount of income a consumer has to spend on goods and services is known as 5) \_\_\_\_\_
- A) purchasing power.                      B) a budget constraint.  
 C) effective demand.                      D) wealth.

Figure 10-5



- 6) Refer to Figure 10-5. Which of the following statements is true? 6) \_\_\_\_\_
- A) The consumer gets less utility from bundle *w* than from bundle *v*.
  - B) Bundles *r*, *s*, *t*, and *u* all cost the same.
  - C) Bundles *r* and *w* are not affordable.
  - D) The consumer gets more utility from bundle *r* than from bundle *v*.
- 7) The slope of the indifference curve is referred to as 7) \_\_\_\_\_
- A) the marginal tradeoff rate.
  - B) the marginal rate of substitution.
  - C) the marginal rate of consumption.
  - D) the price ratio.

Figure 10-6



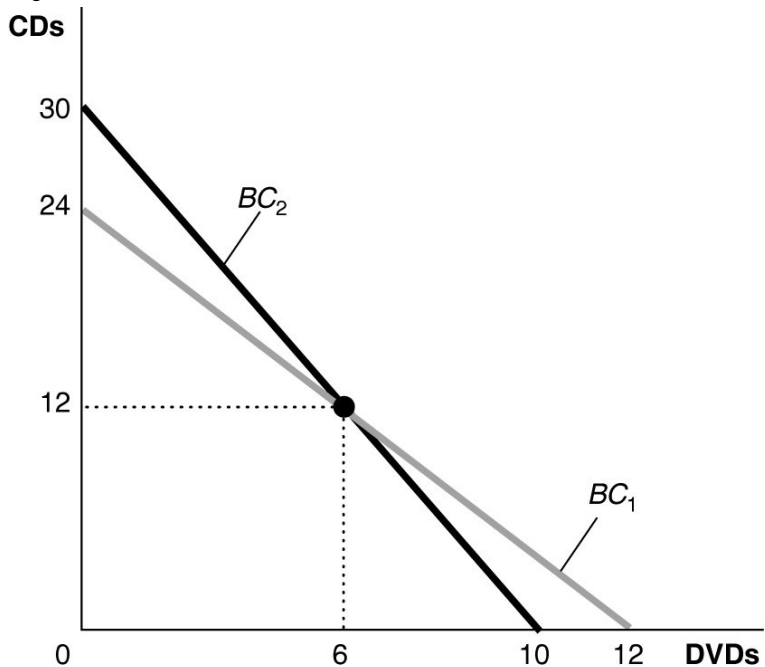
The above panels show various combinations of indifference curves and budget constraints for two products: Popcorn and Candy.

- 8) Refer to Figure 10-6. Which diagram demonstrates a decrease in total utility following an increase in the price of candy? 8) \_\_\_\_\_
- A) the movement from *e* to *d* in Panel A
  - B) the movement from *g* to *f* in Panel B
  - C) the movement from *k* to *h* in Panel C
  - D) none of the above

- 9) If preferences are transitive, indifference curves
- A) intersect at the equilibrium consumption bundle.
  - B) do not intersect.
  - C) intersect at the optimum consumption bundle.
  - D) intersect where the marginal rate of substitution for each indifference curve is equal.

9) \_\_\_\_\_

Figure 10-9



- 10) Refer to Figure 10-9. Consider the budget constraint  $BC_1$ . If the price of DVDs is \$20 and the price of CDs is \$10, what is the consumer's income?
- A) \$120
  - B) \$240
  - C) \$360
  - D) \$480

10) \_\_\_\_\_

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 11) Total utility is constant along a given indifference curve.

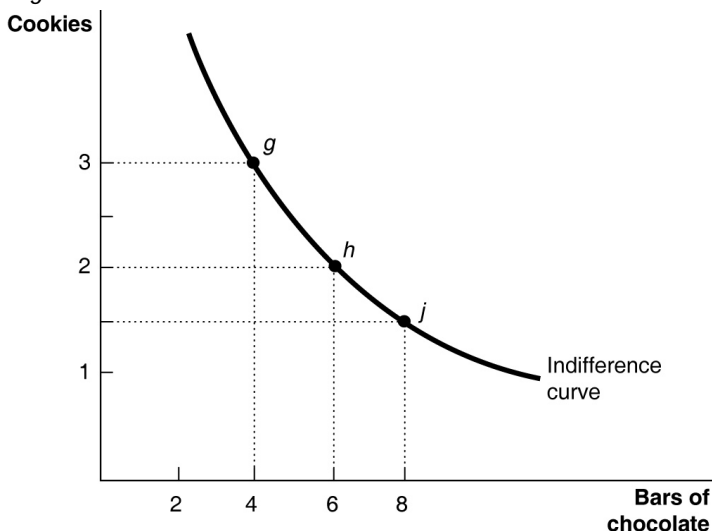
11) \_\_\_\_\_

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 12) What is the marginal rate of substitution?
- A) the rate at which the consumer must give up one good to purchase an additional unit of the other goods in the market
  - B) the rate at which the consumer is willing to trade one good for another so that she increases her utility
  - C) the price ratio
  - D) the rate at which the consumer is willing to trade one good for another without any loss in utility

12) \_\_\_\_\_

Figure 10-4



- 13) Refer to Figure 10-4. What is the marginal rate of substitution between *h* and *j*? 13) \_\_\_\_\_
- A)  $\frac{1}{8}$  of a cookie.      B)  $\frac{1}{4}$  of a cookie.      C) 2 cookies.      D) 4 cookies.
- 14) A consumer's budget constraint is 14) \_\_\_\_\_
- A) the rate at which the consumer must give up one good to purchase an additional unit of the other goods in the market.  
 B) the limited income that a consumer has to spend on goods and services.  
 C) the extent to which one's preferences are limited by one's income.  
 D) the price ratio a consumer faces in the marketplace.
- 15) What is an indifference curve? 15) \_\_\_\_\_
- A) It is a curve that ranks a consumer's preference for various consumption bundles.  
 B) It is a curve that shows the tradeoff a consumer faces among different combinations of consumption bundles.  
 C) It is a curve that shows the combinations of consumption bundles that give the consumer the same utility.  
 D) It is a curve that shows the total utility and the marginal utility derived from consuming a bundle of goods.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 16) Grant has \$200 to spend each month on restaurant meals and jazz performances at his neighborhood jazz club. The price of a typical restaurant meal is \$20 and the price of a jazz performance ticket is \$10. Grant is maximizing his utility by consuming 6 restaurant meals and attending 8 jazz performances. Suppose Grant still has \$200 to spend, but the price of restaurant meal rises to \$25, while the price of jazz performance ticket drops to \$8. Is Grant better off or worse off than he was before the price change? Use a budget constraint/indifference curve graph to illustrate your answer.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 17) We can derive the market demand curve for gold earrings 17) \_\_\_\_\_  
 A) by adding horizontally the individual demand curves of each gold earring consumer.  
 B) by adding vertically the quantity demanded of each gold earring consumed at each price.  
 C) by adding the prices each gold earring consumer is willing to pay for each quantity.  
 D) only if the tastes of all gold earring consumers are similar.
- 18) If a consumer receives 22 units of marginal utility for consuming the first can of soda, 20 units 18) \_\_\_\_\_  
 from consuming the second, and 15 from the third, the total utility of consuming the three units is  
 A) 57 utility units.  
 B) 35 utility units.  
 C) 15 utility units.  
 D) unknown as more information is needed to determine the answer.
- 19) There are two conditions necessary for a consumer to maximize her utility. One is that the 19) \_\_\_\_\_  
 marginal utilities per dollar spent on each good and service consumed are equal. What is the other  
 condition?  
 A) The prices of each good and service consumed must not be too high.  
 B) The total spent on each good and service is the same.  
 C) The consumer must be satisfied with the choices she makes.  
 D) Total spending on all goods and services must equal the amount available to be spent.
- 20) Economists usually assume that people act in a rational, self-interested way. In explaining how 20) \_\_\_\_\_  
 consumers make choices this means that economists believe  
 A) consumers will spend their incomes and time on activities that benefit themselves as much as  
 possible, without regard to the welfare of others.  
 B) consumers spend their incomes to order to accumulate the most goods and services.  
 C) consumers will always buy goods and services at the lowest possible prices.  
 D) consumers make choices that will leave them as satisfied as possible given their incomes,  
 tastes, and the prices of goods and services available to them.

Table 10-1

Quantity of Pita Wraps	Total Utility	Quantity of Bubble Tea	Total Utility
1	60	1	40
2	102	2	70
3	132	3	91
4	144	4	106
5	144	5	112
6	138	6	115
7	128	7	115

Keegan has \$30 to spend on Pita Wraps and Bubble Tea. The price of a Pita Wrap is \$6 and the price of a glass of Bubble Tea is \$3. Table 10-1 shows his total utility from different quantities of the two items.

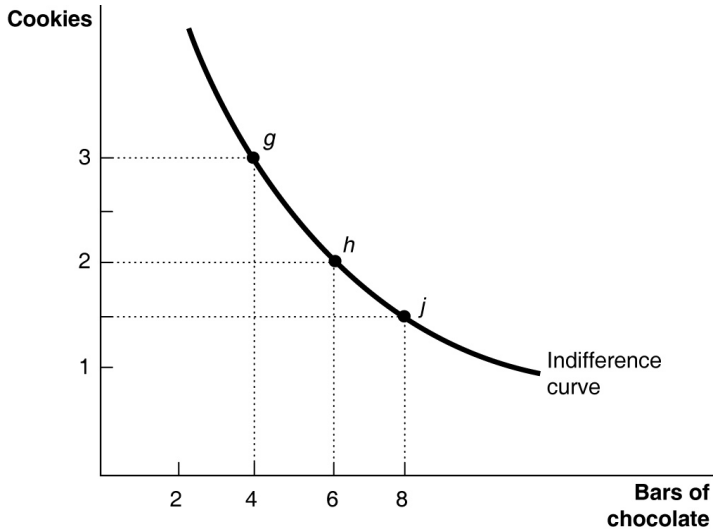
- 21) Refer to Table 10-1. What is Keegan's optimal consumption bundle? 21) \_\_\_\_\_  
 A) 5 pita wraps and 0 bubble teas  
 B) 3 pita wraps and 4 bubble teas  
 C) 4 pita wraps and 2 bubble teas  
 D) 3 pita wraps and 3 bubble teas

22) Adhira buys chocolates and almonds. She has 3 bars of chocolates and 4 bags of almonds. The marginal utility of the third chocolate bar is 18 units of utility and the marginal utility from the fourth bag of almonds is also 18. Is Adhira maximizing her utility?

22) \_\_\_\_\_

- A) No, she must cut back to 3 bags of almonds to equate her quantities of the two goods.
- B) Yes, the marginal utility from the last unit of each good is equal.
- C) No, she must buy 1 more chocolate bar to equate her quantities of the two goods.
- D) No, without information on her income and the prices of the two goods, we cannot answer the question.

Figure 10-4



23) Refer to Figure 10-4. What is the marginal rate of substitution between *g* and *h*?

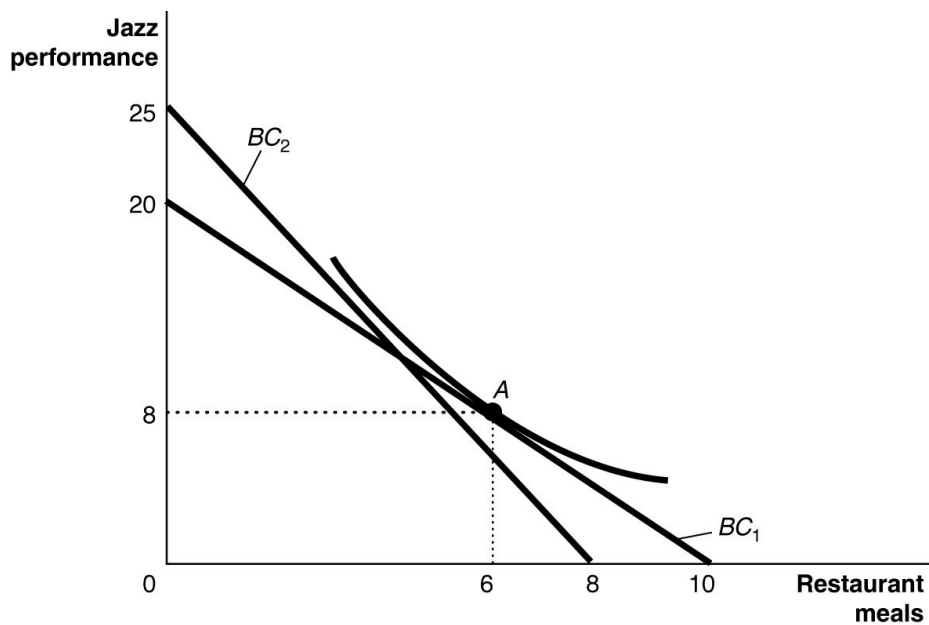
23) \_\_\_\_\_

- A)  $\frac{1}{3}$  of a cookie.
- B)  $\frac{1}{2}$  of a cookie.
- C) 2 cookies.
- D) 3 cookies.

## Answer Key

Testname:

- 1) C
- 2) D
- 3) C
- 4) C
- 5) B
- 6) C
- 7) B
- 8) C
- 9) B
- 10) B
- 11) TRUE
- 12) D
- 13) B
- 14) B
- 15) C
- 16) Initially, when the price of a typical restaurant meal is \$20 and the price of a jazz performance ticket is \$10, Grant consumes the bundle "A" on  $BC_1$ . Following the price changes, Grant's new budget line is  $BC_2$ . He is no longer able to afford this same bundle "A" as shown in the figure below. Therefore, he is worse off.



- 17) A
- 18) A
- 19) D
- 20) D
- 21) B
- 22) D
- 23) B