Economics 203: Intermediate Microeconomics

Mr. Killingsworth

Quiz #1 – VERSION A

Note: Depending on which version you took, the questions were ordered differently.

Instructions:

- Use a pencil, or blue or black ink, to fill in your answers.
- Darken in the “bubbles” AND write your student ID number in the space provided on the answer sheet.
- Darken in the “bubbles” to identify the version of your exam – VERSION A.
- If you make a mistake, erase the wrong answer completely and fill in the right answer. (If you are using ink, put an “X” through any wrong answer, and fill in the right answer.
- There are FOUR pages and FIFTEEN questions to this quiz.

1. The theory of consumer choice describes how…

A. a consumer chooses between different budget constraints
B. a consumer chooses between different income levels
C. a consumer allocates her limited resources among available goods and services
D. all of the above
E. none of the above

2. If two goods are perfect substitutes, then

A. the marginal rate of substitution is constant.
B. the indifference curves are straight lines.
C. the indifference curves are L-shaped.
D. Both (A) and (B) are true.
E. None of the above.

3. Consider a cash subsidy of $100 and a voucher for $100 that can be used only to buy food.

A. A consumer will always be equally well off with the cash subsidy as with the voucher.
B. A consumer will always be better off with the cash subsidy than with the voucher.
C. A consumer will never be better off with the voucher than with the cash subsidy.
D. A consumer will always be better off with the voucher than with the cash subsidy.
E. none of the above

4. Suppose the marginal rate of substitution between two goods X and Y is equal to 3 for all values of X and Y. Then goods X and Y are

A. perfect substitutes
B. perfect complements
C. normal goods
D. inferior goods
E. none of the above
5. The "equal bang for a buck" idea means that the consumer is equating

A. the marginal utilities of all the goods purchased
B. the prices of all the goods purchased
C. the marginal utilities of the last dollar spent on each good purchased
D. the ratios of the last dollar spent on each good purchased
E. none of the above

6. Which of the following statements is FALSE?

A. Marginal utility may be negative.
B. Marginal utility is the slope of the total utility curve.
C. If "more is better than less," then total utility will always increase as consumption of a good rises.
D. If "more is better than less," then the marginal utility from consuming the second unit of a good must be greater than the marginal utility from consuming the first unit of that good.
E. None of the above (all the statements are true).

7. A utility-maximizing consumer uses a fixed income I to purchase two goods, X and Y, whose prices are P_x and P_y, respectively. Suppose that the consumer is currently located at point P on his budget line, purchasing positive amounts of both X and Y. We graph the consumer's budget line and indifference curves with X on the horizontal axis and Y on the vertical axis, and find that, at point P, the slope of the budget line is steeper in absolute value than the slope of the indifference curve that passes through point P. Then we can conclude that...

A. the consumer will buy more X and less Y
B. the consumer will buy more Y and less X
C. the consumer will buy more of both X and Y
D. the consumer not change his purchases of X or Y
E. none of the above

8. The marginal utility of a good X

A. is the ratio of total utility to total consumption of X
B. is the rate at which total utility changes as the level of consumption of X rises
C. is always equal to the price of X
D. all of the above
E. none of the above

9. A utility-maximizing consumer uses a fixed income I to purchase two goods, X and Y, whose prices are P_x and P_y, respectively. The consumer's income, I, rises by 10 percent. At the same time, both P_x and P_y rise by 10 percent. This consumer's budget line will therefore

A. shift away from the origin, but remain parallel to his old budget line
B. shift towards the origin, but remain parallel to his old budget line
C. move clockwise, increasing in slope
D. move counter-clockwise, decreasing in slope
E. none of the above
10. A utility-maximizing consumer uses a fixed income I to purchase two goods, X and Y, whose prices are $P_X$ and $P_Y$, respectively. Identify the statement that is FALSE:

A. An increase in I changes the intercepts of the budget line but not the slope.
B. An increase in the price of X changes both the X-intercept and the slope of the budget line.
C. An increase in $P_X$ and an equal percentage increase in $P_Y$ changes the X-intercept, the Y-intercept, and the slope of the budget line.
D. An increase in both $P_X$ and $P_Y$ may or may not change the slope of the budget line.
E. None of the above (all the statements are true)

11. A utility-maximizing consumer uses a fixed income I to purchase two goods, textbooks (measured on the vertical axis) and beer (measured on the horizontal axis). The price of beer falls; income and the price of textbooks remain unchanged. What will happen to the slope of the consumer's budget line?

A. The new budget line shifts towards the origin, remaining parallel to the old budget line.
B. The new budget line slope shifts inward (towards the origin) along the horizontal axis, and its slope is steeper than the slope of the old budget line.
C. The new budget line shifts inward (towards the origin) along the horizontal axis, and its slope is flatter than the slope of the old budget line.
D. The new budget line shifts outward (away from the origin) along the horizontal axis, and its slope is flatter than the slope of the old budget line.
E. None of the above.

12. Suppose the cross-price elasticity for two goods is positive. Then the two goods are

A. substitutes
B. complements
C. normal goods
D. inferior goods
E. none of the above

13. A utility-maximizing consumer uses a fixed income I to purchase two goods, A and B, whose prices are $P_A$ and $P_B$, respectively. $P_A$ rises by 5 percent; $P_B$ rises by 10 percent. Income (I) remains unchanged. Then the consumer's budget line (with A plotted on the horizontal axis, and B plotted on the vertical axis) will...

A. shift in towards the origin, and will become steeper in slope
B. shift in towards the origin, and will become flatter in slope
C. shift in toward the origin, but will have the same slope
D. shift out from the origin, but will have the same slope
E. none of the above

14. Which of the following statements is TRUE?

A. Along an indifference curve, but total utility and the marginal rate of substitution are constant.
B. If an indifference curve is convex, the marginal rate of substitution varies along the curve.
C. The slope of an indifference curve measures the marginal rate of substitution.
D. Both (B) and (C) are true.
E. None of the above (all statements are false).
15. If two goods are perfect complements, then

A. the marginal rate of substitution is constant
B. the indifference curves are straight lines
C. the indifference curves are L-shaped
D. Both (A) and (B) are true
E. None of the above