Economics 203: Intermediate Microeconomics

Quiz #2 – VERSION A

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. A consumer's income rises by 20% (other things being equal), and the consumer's consumption of good X falls by 10%. We can conclude that the consumer's income-elasticity of demand for good X is
   A. -0.50
   B. -2.00
   C. 0.50
   D. 2.00
   E. none of the above

2. The income effect caused by a price change refers to
   A. the change in demand for a good caused by a change in the consumer's utility, with relative prices constant
   B. the change in demand for a good caused by a change in relative prices, with utility held constant
   C. the change in demand for a good caused by a change in purchasing power, with relative prices constant
   D. both (A) and (C)
   E. none of the above

3. When the consumer's income rises by 20% (other things being equal), the consumer's consumption of good X only rises by 10%. We can conclude that good X is a(n)
   A. normal good
   B. inferior good
   C. Giffen good
   D. marginal good
   E. none of the above
4. When is the demand curve for good A downward-sloping?

A. When good A is a normal good.
B. When good A is an inferior good and the substitution effect outweighs the income effect.
C. When good A is an inferior good and the income effect outweighs the substitution effect.
D. Both (A) and (B) are correct.
E. None of the above.

5. The price of good A has increased. Which of the statements below is FALSE?

A. The substitution effect will result in a decrease in consumption of A, regardless of whether A is a normal good or an inferior good.
B. The income effect will result in an increase in consumption of A, provided A is an inferior good.
C. In total (including both the income and substitution effects), we can be sure the consumer will buy more A if A is a Giffen good.
D. In total (including both income and substitution effects), we can be sure the consumer will buy more A if A is an inferior good.
E. none of the above (all the statements are true)

6. To derive a consumer's demand curve from an indifference curve-budget line diagram, we...

A. change the consumer's income (holding prices of both goods constant) and identify the baskets the consumer chooses at each income level
B. change the prices of both goods (holding income constant) and identify the baskets the consumer chooses at each price level
C. change the price of one good (holding income and the price of the other good constant) and identify the baskets the consumer chooses at each price level
D. change the price of one good (holding the price of the other good constant) and then change income so that the consumer's level of utility remains unchanged, and then identify the baskets the consumer chooses at each price level
E. do none of the above

7. The substitution effect associated with a change in the price of a good describes

A. the change in consumption of the good due to the change in utility, with relative prices held constant
B. the change in consumption of the good due to the change in relative prices, with utility held constant
C. the change in consumption of the good due to the change in purchasing power, with relative prices held constant
D. both (B) and (C)
E. none of the above
8. When the consumer's income falls by 10% (other things being equal), the consumer's consumption of good X rises by 20%. We can conclude that good X is a(n)  
A. normal good  
B. inferior good  
C. Giffen good  
D. marginal good  
E. none of the above

9. Giffen goods  
A. are normal goods with a negative income effect  
B. are inferior goods with an income effect that is smaller than the substitution effect  
C. are inferior goods with an income effect that is greater than the substitution effect  
D. have downward-sloping demand curves  
E. are none of the above

10. If the wage for an hour of work rises, and if leisure time is a "normal good," then  
A. we can be sure that hours of work will rise  
B. we can be sure that hours of work will fall  
C. hours of work will rise if the income effect of the wage increase exceeds the substitution effect of the wage increase  
D. we can be sure that hours of work will rise at first, but will fall later on  
E. none of the above

11. If A is a normal good and the price of A falls, then  
A. the substitution effect will induce the consumer to buy more A, and the income effect will induce the consumer to buy more A  
B. the substitution effect will induce the consumer to buy more A, and the income effect will induce the consumer to buy less A  
C. the substitution effect will induce the consumer to buy less A, and the income effect will induce the consumer to buy more A  
D. the substitution effect will induce the consumer to buy less A, and the income effect will induce the consumer to buy less A  
E. none of the above

12. One way to measure the opportunity cost of an hour of our leisure time is to use  
A. the wage rate that you could earn by working during that hour  
B. the cost of the movie that you see after work  
C. the cost of travelling to an art museum on your day off  
D. the cost of the cleaning service you use to clean your house because you work full-time  
E. none of the above
13. The concept of "equivalent variation" of a rise in the price of good X refers to

A. the change in income the consumer would require after the price increase in order to maintain the utility level he/she enjoyed before the price increase
B. the change in income the consumer would have to give up before the price increase in order to have the utility level he/she will enjoy after the price increase
C. the income effect on consumption of good X of the rise in the price of X
D. the substitution effect on consumption of good X of the rise in the price of X
E. none of the above

14. If the utility function showing the utility U generated by two goods A and B is \( U = f(A) + kB \), where \( f( ) \) is a nonlinear function and \( k \) is a positive constant term, then...

A. indifference curves for goods A and B are parallel
B. a change in the price of A will have a zero income effect on B
C. a change in the price of A will have a zero substitution effect on B
D. all of the above
E. none of the above

15. The term "negative network externality" could be used to describe which of the following situations?

A. I buy fewer chocolate bars when the price of chocolate rises.
B. I choose Eudora Pro as my e-mail software package because all of my friends and family use it.
C. I decide not to purchase a Prius because "everybody's buying one these days."
D. I subscribe to AOL Instant Messenger service so that I can chat on-line with my friends.
E. none of the above