Exam

Name_____

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

1) Ted has $600 a week to spend on food (*f*) and clothing (*c*). The price of food is $5 and the price of clothing is $30. What is the equation for Ted's budget constraint?

    A) $5 × Food + $30 × Clothing = $600
    B) $5 × Food + $30 × Clothing > $600
    C) Food + Clothing < $600
    D) $5 × Food + $30 × Clothing ≤ $600

1) _____

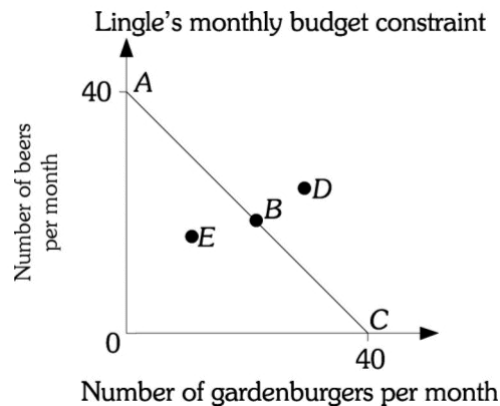*Refer to the information provided in Figure 6.2 below to answer the questions that follow.*

Figure 6.2

2) Refer to Figure 6.2. Assume Mr. Lingle is on budget constraint *AC*. If the price of a gardenburger is $5, Mr. Lingle's monthly income is

    A) $20.   B) $60.   C) $100.   D) $200.

2) _____

3) Refer to Figure 6.2. Assume Mr. Lingle is on budget constraint *AC*. If the price of a beer is $5, Mr. Lingle's monthly income is

    A) $40.   B) $80.   C) $100.   D) $200.

3) _____

4) Refer to Figure 6.2. The slope of budget constraint *AC* is

    A) -1.
    B) -2.
    C) -5.
    D) indeterminate from this information because prices are not given.

4) _____

5) Refer to Figure 6.2. Assume Mr. Lingle's budget constraint is *AC*. He will not spend his entire income at point _____.

    A) A   B) B   C) D   D) E

5) _____

6) Refer to Figure 6.2. Assume Mr. Lingle's budget is *AC*. Given his current monthly income he cannot purchase the quantities of the two goods at point _____.

    A) A   B) B   C) D   D) E

6) _____

7) Refer to Figure 6.2. Along budget constraint *AC*, the opportunity cost of one gardenburger is   7) _____
   A) 1/4 of a beer.
   B) a beer.
   C) 2 beers.
   D) changing as Mr. Lingle moves down his budget constraint.

8) If a household's income is doubled, its budget constraint will   8) _____
   A) pivot at the Y-intercept.   B) shift in parallel to the old one.
   C) shift out parallel to the old one.   D) not be affected.

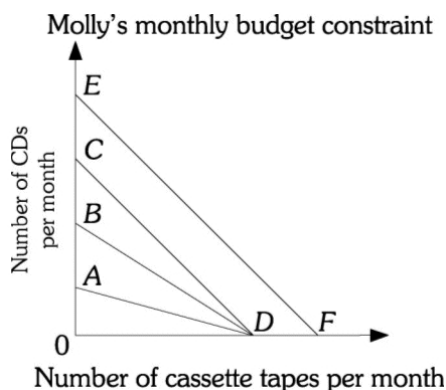*Refer to the information provided in Figure 6.5 below to answer the questions that follow.*

Figure 6.5

9) Refer to Figure 6.5. Molly's budget constraint is *BD*. If the price of CDs decreases, her new budget   9) _____
   constraint becomes
      A) CD.   B) EF.   C) AO.   D) AD.

10) Refer to Figure 6.5. Molly's budget constraint is CD. If her income increases, her new budget   10) _____
    constraint is
       A) EF   B) AD
       C) BD   D) not shown on this graph.

11) Refer to Figure 6.5. Molly's budget constraint is *BD*. Molly's income is $600, the price of a cassette   11) _____
    tape is $15 and the price of a CD is $20. At Point B the consumer is buying _____ cassette tapes
    and _____ CDs.
       A) 30;0   B) 20; 15   C) 40; 30   D) 0;30

12) Marginal utility is the   12) _____
    A) total satisfaction gained by consuming all units of a good.
    B) additional consumption divided by the additional satisfaction gained by the additional
       consumption.
    C) additional satisfaction gained by the consumption of one more unit of a good.
    D) total satisfaction gained by consuming the last unit of the good.

13) Kathy eats five slices of pizza on a Saturday night but admits each slice of pizza doesn't taste as good as the previous one. This suggests that for Kathy the   13) _____
    A) marginal utility of a slice of pizza is negative.
    B) total utility of slices of pizza is declining.
    C) marginal utility of a slice of pizza is positive but decreasing.
    D) total utility of slices of pizza is increasing by larger and larger increments.

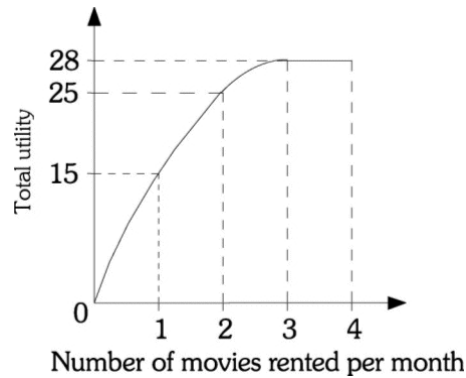*Refer to the information provided in Figure 6.8 below to answer the questions that follow.*

Figure 6.8

14) Refer to Figure 6.8. The marginal utility of the second movie rental is   14) _____
    A) 10.   B) 12.5.   C) 25.   D) 40.

15) Refer to Figure 6.8. The marginal utility of the third movie rental is   15) _____
    A) 1.   B) 3.   C) 9.33.   D) 28.

16) Refer to Figure 6.8. The _____ movie rental has a marginal utility of zero.   16) _____
    A) first   B) second   C) third   D) fourth

17) The law of diminishing marginal utility is effective when marginal utility is _____.   17) _____
    A) initially zero and then increasing   B) initially zero and then decreasing
    C) positive and decreasing   D) positive and increasing

Table 6.1

Number of Hamburgers per Day	Total Utility	Marginal Utility
1	30	
2	52	
3	67	
4	76	
5		4

Number of Sodas per Day	Total Utility	Marginal Utility
1	20	
2	35	
3	47	
4	57	
5		7

18) Refer to Table 6.1. The marginal utility of the second soda per day is   18) _____
   A) 10.   B) 15.   C) 35.   D) 55.

19) Refer to Table 6.1. The marginal utility of the third hamburger per day is   19) _____
   A) 5.   B) 15.   C) 22.33.   D) 119.

20) Refer to Table 6.1. Diminishing marginal utility sets in after the _____ soda per day.   20) _____
   A) first   B) second   C) third   D) fourth

21) Refer to Table 6.1. The total utility of five hamburgers per day is   21) _____
   A) 80.   B) 81.
   C) 96.   D) indeterminate from this information.

22) Refer to Table 6.1. The total utility of five sodas per day is   22) _____
   A) 35.   B) 64.
   C) 92.   D) indeterminate from this information.

23) Refer to Table 6.1. If the price of a soda is $2, the price of a hamburger is $6, and George has $14 of   23) _____
   income, George's utility maximizing combination of sodas and hamburgers per day is
   A) 4 sodas and 1 hamburger.   B) 3 sodas and 1.5 hamburgers.
   C) 1 soda and 2 hamburgers.   D) indeterminate from this information.

24) Refer to Table 6.1. Assume that a store is giving hamburgers and sodas away for free. Consumers   24) _____
   can have as many sodas and hamburgers as they want, but the food has to be consumed one unit at
   a time. If George has already had one soda and two hamburgers, then George
   A) should next consume a soda to maximize his utility.
   B) should consume neither another soda nor another hamburger to maximize his utility.
   C) is indifferent between consuming the second soda or the third hamburger.
   D) should next consume a hamburger to maximize his utility.

25) The law of diminishing marginal utility   25) _____
    A) refers to the decrease in additional satisfaction created by consumption of more and more
       units of a good.
    B) refers to the idea that total utility is negative.
    C) refers to the decrease in total satisfaction as more units of a good are consumed.
    D) All of the above

26) A utility-maximizing consumer combines purchases in a way that makes   26) _____
    A) $MU_x/MU_y = P_x/P_y$ for all pairs of goods.
    B) $TU_x/P_x = TU_y/P_y$ for all pairs of goods.
    C) $P_x(MU_x) = P_y(MU_v)$ for all pairs of goods.
    D) $MU_x = MU_y$ for all pairs of goods.

27) For a utility maximizing individual the ratio of the marginal utility of coffee to the marginal utility   27) _____
of donuts is four. This implies that
    A) the coffee to donuts price ratio is four to one.
    B) this person always eats donuts with coffee.
    C) a donut is four times more valuable than a cup of coffee.
    D) a cup of coffee is four times less valuable than a donut.