Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

__ 1. Suppose Sam’s income is $70,000 and George’s is $15,000, with Sam’s income on the vertical axis and George’s on the horizontal. Sam has indifference curves between her income and George’s, and at the initial level of incomes her indifference curve has a slope of -2. This implies
   a. Sam will give some money to George only if $1 given to George costs less than $1 to Sam.
   b. Sam will give some money to George only if $1 given to George costs less than $0.50.
   c. Sam will give some money to George only if $1 given to George costs less than $2.
   d. Sam would pay up to $2.00 in order to reduce George’s income by $1 from the initial point.

__ 2. The income-consumption curve is drawn on a diagram with goods x and y
   a. with a positive slope if both goods are normal.
   b. with a negative slope if one good is inferior.
   c. both a and b are true.
   d. none of the above are true.

__ 3. Assume that eggs are on the horizontal axis and mushrooms are on the vertical axis. If money income goes from $100 to $60, the price of eggs from 10 cents to 5 cents and the price of mushrooms from $5 to $3 a pound, then
   a. the budget constraint moves inward in a parallel fashion.
   b. the budget constraint moves outward in a parallel fashion.
   c. the budget line swings outward so that the egg intercept is farther from the origin and its slope is flatter.
   d. none of the above are true.

__ 4. A decrease in the price of the “x” good is shown by:
   a. a rotation in the budget line so that it intersects the horizontal axis closer to the origin.
   b. a rotation in the budget line so that it intersects the horizontal axis further from the origin.
   c. a parallel shift in the budget line so that it becomes closer to the origin.
   d. none of the above are true.

__ 5. An indifference curve between two goods:
   a. is generally assumed to be convex.
   b. has a positive slope.
   c. both a and b are true.
   d. none of the above are true.

__ 6. Indifference curves that are so little curved as to be close to straight lines, rather than close to being “L-shaped”, are indicative of goods that are
   a. high in quality.
   b. close substitutes.
   c. close complements.
   d. inferior goods.

__ 7. A corner solution, where only one of two goods is consumed by a consumer facing a linear budget constraint, is
   a. always going to happen when indifference curves are concave to the origin.
   b. can never happen when indifference curves are convex to the origin.
   c. both a and b are true.
   d. none of the above are true.
Amusement Park Scenario 1
Suppose the first 4 visit to the amusement park are $20 each, but each visit after that costs $10. The “other” good has a price of $4 per unit. Our consumer, James, has $160 per period to spend on these two goods, where the other good is measured on the vertical axis and park visits are measured on the horizontal axis.

8. Refer to Amusement Park Scenario 1. It is true that James could
   a. consume 5 park visits and 20 units of the other good.
   b. visit the park a total of exactly 12 times if he spends all his money on such visits
   c. both a and b are true.
   d. none of the above are true.

9. When a rational consumer chooses to consume some of both goods x and y, then, at the quantities chosen,
   a. the ratio of the quantity of y to the quantity of x is equal to the ratio of the price of y to the price of x.
   b. the (negative of) the change in y over the change in x along the indifference curve is equal to the ratio of the price of y to the price of x.
   c. the ratio of the quantity of y to the quantity of x is equal to the ratio of the price of x to the price of y.
   d. the (negative of) the change in y over the change in x along the indifference curve is equal to the ratio of the price of x to the price of y.

10. The marginal rate of substitution between y on the vertical and x on the horizontal axis
    a. is the absolute size of the slope of the supply curve.
    b. is the absolute size of the slope of the production possibility curve.
    c. is the absolute size of the slope of the indifference curve.
    d. none of the above are true.

11. If an allocation of resources is Pareto efficient, then
    a. any change will make someone better off.
    b. any change will make someone worse off.
    c. there is some change that will make some people better off without hurting anyone.
    d. no change is possible.

12. The production possibility frontier is constructed so that
    a. any point to the northeast of the frontier is infeasible.
    b. any point with positive quantities to the southwest of the frontier is infeasible.
    c. the slope of the frontier must always be positive.
    d. none of the above are true.

13. The rate of product transformation is the absolute value of
    a. the slope of the supply curve.
    b. the slope of the demand curve.
    c. the slope of the indifference curve.
    d. the slope of the production possibility frontier.

14. If the supply curve shifts to the right, then equilibrium
    a. price and quantity go up.
    b. price goes down and quantity goes up.
    c. price goes up and quantity goes down.
    d. price and quantity go down.

15. If the demand curve shifts to the left, then equilibrium
    a. price and quantity go up.
    b. price goes up and quantity goes down.
    c. price goes down and quantity goes up.
16. If demand shifts to the left and supply shifts to the right, then one can be sure that
   a. price will go up.
   b. price will go down.
   c. quantity will go up.
   d. quantity will go down.

17. If the demand for shirts is price inelastic, then a shift to the right in the supply curve of shirts will
   a. increase the quantity of shirts sold.
   b. increase the total spending on shirts.
   c. both a and b are true.
   d. none of the above are true.

18. If goods x and y are substitutes then one can be certain that
   a. if x has an elastic demand, then y has an inelastic demand.
   b. both goods are normal.
   c. the cross-price elasticity of good x with respect to the price of y is positive.
   d. none of the above are true.

19. Demand for the usual type of good is likely to be:
   a. more elastic in the long run.
   b. more elastic the more narrowly defined the good (such as one brand versus all brands of a given type of good).
   c. both a and b are true.
   d. none of the above are true.

20. The concave shape of the production possibility frontier implies that the more one produces of the good on the horizontal axis (the X good),
   a. the lower the opportunity cost of one more unit of the X good.
   b. the higher the opportunity cost of one more unit of the good on the vertical axis.
   c. the higher the opportunity cost of one more unit of the X good.
   d. the greater the technological improvement in the X industry.

21. If the statistics for 2005 compared to 2004 showed that the real price of chairs went up and the quantity consumed decreased, you would offer the explanation that:
   a. supply shifted to the right.
   b. supply shifted to the left.
   c. demand shifted to the right.
   d. demand shifted to the left.

22. A price ceiling such as rent control is likely to have which of the following effects relative to a free market:
   a. a decline in the quality of the good or service.
   b. the existence of a surplus for the good.
   c. both a and b are true.
   d. none of the above are true.

23. A price ceiling such as rent control is likely to have which of the following effects relative to a free market:
   a. a decrease in the quantity supplied.
   b. an increase in the quantity demanded.
   c. the existence of a shortage.
   d. all of the above are true.

24. If the price of oranges fell and the total spending on oranges increased, one could conclude that
   a. oranges have an elasticity of demand greater than one.
   b. oranges have an income elasticity of demand less than one.
   c. the supply curve of oranges is perfectly elastic.
   d. none of the above are true.

25. If demand for cheesecake is elastic, then a fall in its price by 10% will
a. cause total spending on cheesecake to go up.
b. cause the quantity consumed to go up by more than 10%.
c. both a and b are true.
d. none of the above are true.

26. A price-consumption curve is
a. a collection of tangency points between demand and supply curves.
b. always positively sloping.
c. drawn holding income constant.
d. all of the above are true.

27. The income effect of a price change:
a. works towards producing a downward sloping demand curve when the good is normal.
b. is associated with a movement along an indifference curve.
c. Both a and b are true.
d. None of the above are true.

28. The substitution effect of a price change for a good:
a. always works in the opposite direction from the income effect.
b. is smaller the more sharply curved (closer to an “L-shape”) are the indifference curves.
c. is associated with movement between indifference curves.
d. all of the above are true.

29. The substitution effect of a price change:
a. always works towards producing a negatively sloping demand curve.
b. is larger the less sharply curved (closer to straight line) are the indifference curves.
c. is associated with movement along an indifference curve.
d. all of the above are true.

30. If someone receiving $200 per month in food stamps consumes exactly $200 in food, then most likely if that person received $200 in cash instead of the food stamps, they would
a. be better off.
b. consume less food.
c. both a and b are true.
d. none of the above are true.

31. A farmer buys a tractor for $100,000, uses it for one year and sells it for $70,000. The interest rate on alternative investments for that year was 7%. The opportunity cost of using the tractor for one year was
a. $30,000.
b. $21,000.
c. $37,000
d. $7000.

32. If income is $100, the price of good x is $5, and the price of good y is $4, then with regard to the budget line
a. the y intercept is 25 and the slope is -4/5.
b. the y intercept is 25 and the slope is -5/4.
c. the y intercept is 20 and the slope is -4/5.
d. the y intercept is 20 and the slope is -5/4.

33. Suppose originally, the price of bread is $1, the price of milk is $1, Fred’s income is $100 and Fred consumes 50 units of each good. A year later the price of bread is $2 and the price of milk is $1 and Fred has $150 to spend. Assuming Fred has ordinary looking indifference curves between bread and milk, one can assert that one year later
a. Fred is better off.
b. Fred is worse off.
c. Fred has exactly the same level of utility.
d. One cannot know whether Fred is better or worse off from the information given.
MULTIPLE CHOICE

1. ANS: C
2. ANS: C
3. ANS: C
4. ANS: B
5. ANS: A
6. ANS: B
7. ANS: A
8. ANS: B
9. ANS: D
10. ANS: C
11. ANS: B
12. ANS: A
13. ANS: D
14. ANS: B
15. ANS: D
16. ANS: B
17. ANS: A
18. ANS: C
19. ANS: C
20. ANS: C
21. ANS: B
22. ANS: A
23. ANS: D
24. ANS: A
25. ANS: C
26. ANS: C
27. ANS: A
28. ANS: B
29. ANS: D
30. ANS: C
31. ANS: C
32. ANS: B
33. ANS: A