

Chapter 20

Consumer Choice

20.1 Utility Theory

- 1) In economics, another term for satisfaction is

A) income elasticity. B) price elasticity.
C) utility. D) marginal productivity.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 2) The amount of pleasure or satisfaction derived from consumption of a good is called

A) elasticity. B) utility.
C) consumer surplus. D) demand.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 3) Suppose that Homer derives 45 utils of total utility from eating 4 donuts and 55 utils of total utility from eating 5 donuts. What is Homer's marginal utility from eating the 5th donut?

A) 10 B) 45 C) 55 D) 100

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Utility analysis helps economists understand

A) how people make decisions about what they buy and how much.
B) how to eliminate opportunity costs.
C) how to eliminate scarcity.
D) none of the above.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Which of the following is NOT true of utility?
- A) It represents the want-satisfying power of a good.
 - B) It is measured using a representative unit called a *util*.
 - C) The utility that a good provides depends on a consumer's preferences.
 - D) Utility can be measured objectively.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The utility that people experience from the consumption of a good depends on
- A) their income level.
 - B) their tastes and preferences.
 - C) total sales of the good.
 - D) how much shopping time they spent obtaining the good.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Economists use what term to describe the want-satisfying power of a good?
- A) Demand
 - B) Utility
 - C) Marginal propensity to consume
 - D) Income elasticity

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 8) In economics, utility is defined as
- A) the want-satisfying power of a good or service.
 - B) the usefulness of a good or service.
 - C) the utilitarian value of a good or service.
 - D) the objective measure of the desirability of a good or service.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 9) In economic utility analysis, consumer tastes and preferences are assumed
- A) to be determined by income.
 - B) to be influenced by the prices of goods.
 - C) given and stable for an individual.
 - D) given but rapidly changeable.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 10) A representative unit that measures the want-satisfying power of a good is
- A) a margin.
 - B) purchasing power.
 - C) income.
 - D) a util.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 11) Which English philosopher set out to develop an arithmetic formula for measuring happiness and along the way invented the util?

- A) John Maynard Keynes
- B) Milton Friedman
- C) Jeremy Bentham
- D) Adam Smith

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 12) Marginal utility is measured as
- A) utility per unit of production.
 - B) extra output divided by extra utility.
 - C) output of a good or service divided by price.
 - D) extra utility from each additional good consumed.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 13) Marginal utility is
- A) the utility received from consuming one unit of a good.
 - B) the change in total utility due to a one-unit change in the quantity of a good consumed.
 - C) the total utility received from consuming a certain quantity of a good divided by the quantity.
 - D) the utility received by the last consumer of a good.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 14) To calculate marginal utility, divide the change in total utility by
- A) the number of units consumed.
 - B) the price of the product.
 - C) the change in the number of units consumed.
 - D) the consumer's subjective level of preference.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

15) The term *marginal* means

- A) total. B) cumulative. C) subjective. D) additional.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

16) When economists refer to people making decisions *at the margin*, they mean that we compare _____ benefits with _____ costs.

- A) total; total B) total; incremental
C) additional; additional D) additional; marginal

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

17) The concept of marginality is important in economics because

- A) individuals make decisions at the margin.
B) marginal decisions indicate a lack of importance.
C) individuals make decisions based on tastes only.
D) large expenditures are the only factor influencing consumption.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

18) Marginal utility can be thought of as

- A) the incremental change in a person's total satisfaction level from the buying of a good.
B) the total change in satisfaction from buying a good.
C) the additional cost of that next good purchased.
D) the opportunity cost of buying the next good.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

19) If total utility is decreasing, then marginal utility is

- A) negative. B) positive. C) zero. D) increasing.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 20) If total utility is increasing, then marginal utility is
 A) negative. B) positive. C) zero. D) decreasing.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 21) If total utility is unchanged, then marginal utility is
 A) negative. B) positive. C) zero. D) increasing.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

Quantity of Movies	Total Utility Mary	Total Utility John
3	100	190
4	140	250
5	170	300
6	190	340
7	200	370
8	210	390
9	210	405
10	200	415
11	190	420

- 22) According to the above table, Mary's marginal utility from watching the 6th movie is
 A) 190 units of utility. B) 40 units of utility.
 C) 10 units of utility. D) 20 units of utility.

Answer: D

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

- 23) According to the above table, John's marginal utility from watching the 9th movie is
 A) 405 units of utility. B) 0 units of utility.
 C) 15 units of utility. D) 10 units of utility.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

24) According to the above table, Mary's marginal utility from watching the 4th movie is

- A) 140 units of utility. B) 40 units of utility.
C) 60 units of utility. D) 30 units of utility.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

25) Refer to the above table. What is the marginal utility for the 10th unit for Mary and for John?

- A) Mary: -10; John: 10 B) Mary: 10; John: 10
C) Mary: 220; John: 450 D) Mary: 0; John: 0

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

26) The total utility from consuming 8 units of a good is 155. The marginal utility of the 8th unit is 7 and the marginal utility of the 7th unit is 11. The total utility from consuming 6 units of the good is

- A) 173. B) 144. C) 137. D) 130.

Answer: C

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

Quantity per Week	Total Utility			
	Michelle	Robert	David	Lauren
0	0	0	0	0
1	50	1000	60	60
2	99	1900	120	130
3	147	2700	180	220
4	194	3400	240	310
5	240	4000	300	425
6	285	4500	360	575
7	329	4900	420	900
8	372	5200	480	1275
9	414	5400	540	1770

27) According to the above table, what is Lauren's marginal utility of the 4th unit?

- A) 90 B) 220 C) 310 D) 115

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

- 28) According to the above table, what is Michelle's marginal utility of the 8th unit?
A) 372 B) 43 C) 42 D) 44
Answer: B
Diff: 2
Topic: 20.1 Utility Theory
AACSB: Analytic skills
Question Status: New
- 29) According to the above table, what is Robert's marginal utility of the 5th unit?
A) 60 B) 4500 C) 600 D) 500
Answer: C
Diff: 2
Topic: 20.1 Utility Theory
AACSB: Analytic skills
Question Status: New
- 30) According to the above table, what is David's marginal utility of the 7th unit?
A) 420 B) 400 C) 120 D) 60
Answer: D
Diff: 2
Topic: 20.1 Utility Theory
AACSB: Analytic skills
Question Status: New
- 31) When the total utility from consuming one good is maximized, marginal utility is
A) maximized. B) minimized. C) zero. D) positive.
Answer: C
Diff: 1
Topic: 20.1 Utility Theory
AACSB: Analytic skills
Question Status: Previous Edition
- 32) If two units of a good provide 7 utils and the marginal utility of the third unit of the good is 2 utils, what is the total utility from consuming three units of the good?
A) 3 utils B) 7 utils C) 9 utils D) 10 utils
Answer: C
Diff: 1
Topic: 20.1 Utility Theory
AACSB: Analytic skills
Question Status: Previous Edition
- 33) Marginal utility is defined as
A) the increase in utility divided by the total number of units consumed.
B) the total utility divided by the total number of units consumed.
C) the change in total utility divided by the change in number of units consumed.
D) the number of units consumed divided by the total utility.
Answer: C
Diff: 1
Topic: 20.1 Utility Theory
Question Status: Previous Edition

- 34) Consumers are most satisfied when
- A) all of their income has been saved.
 - B) the total level of utility is as high as possible.
 - C) goods are bought "on sale."
 - D) they save more than they spend.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Utility refers to
- A) the usefulness of a good or service.
 - B) the value of a good or service.
 - C) the want-satisfying power of a good or service.
 - D) the degree to which a good or service is needed.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 36) The want-satisfying power of a good or service is known as
- A) purchasing power.
 - B) utility.
 - C) consumer optimum.
 - D) principle of substitution.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 37) A good synonym for "utility" is
- A) marginal.
 - B) need.
 - C) practical.
 - D) satisfaction.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 38) The concept of utility is
- A) subjective so that there can be no true measurement of someone's utility.
 - B) subjective so measurement of someone's utility must be done scientifically.
 - C) objective so that devices can be developed that would measure a person's utility.
 - D) objective so that psychologists can measure utility and compare one person's utility with that of another person.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Economists infer that a consumer receives more utility from one good than another by
- A) giving consumers surveys about the utility they receive from the goods.
 - B) observing the consumer's behavior.
 - C) the logic of the models used.
 - D) means of introspection and speculation.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Utility analysis is the analysis of
- A) how consumers decide how to spend their money.
 - B) the formation of tastes and preferences.
 - C) the psychology of decision making.
 - D) consumer decision making based on utility maximization.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 41) The analysis of consumer decision making based on utility maximization is known as
- A) specialization analysis.
 - B) consumption analysis.
 - C) utility analysis.
 - D) market analysis.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 42) At a ball game we can observe people eating hot dogs, chips, and burgers. If all are priced the same and we observe Michelle eating a hot dog and David eating a hamburger, we can conclude that
- A) Robert will be eating chips.
 - B) Michelle likes hot dogs better than David does and David likes hamburgers better than Michelle does.
 - C) Michelle derives the same amount of utility from eating a hot dog as David derives from eating a hamburger.
 - D) at this time Michelle derives more utility from eating a hot dog than from eating either a hamburger or chips, while David derives more utility from eating a hamburger than from eating either a hot dog or chips.

Answer: D

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 43) Juan and Sophia have decided to stop studying economics and get a bite to eat. Juan wants to go for a pizza and Sophia wants a hamburger. They decide to go for pizza. What can we conclude from this?
- A) Juan always gets more utility from pizza than Sophia does.
 - B) Sophia gets less utility from pizza than she could from a hamburger.
 - C) Sophia will get negative utility from the pizza.
 - D) Utility analysis does not work here since Sophia did not eat a hamburger.

Answer: B

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 44) A representative unit by which utility is measured is
- A) a util.
 - B) utility.
 - C) marginal utility.
 - D) ordinal utility.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 45) In cardinal utility analysis
- A) numbers can be assigned to utility.
 - B) it is recognized that numbers can not be assigned to utility.
 - C) the concept of marginal utility exists while in ordinal utility analysis marginal utility does not exist.
 - D) marginal utility always increases as more of a good is consumed.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 46) Marginal utility is
- A) the utility received by the last consumer of a good.
 - B) the total utility received from consuming a given quantity of a good divided by the number of units consumed.
 - C) the change in total utility from consuming an additional unit of a good.
 - D) the utility received from consuming the first unit of a good.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 47) The change in the total utility as a result of increasing consumption by one unit is known as
- A) marginal utility.
 - B) average utility.
 - C) proportional utility.
 - D) utils.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

48) The rate of change in total utility equals

- A) marginal utility.
- B) the change in marginal utility associated with eating all the quantities a person can handle.
- C) the change in marginal utility divided by the change in quantity.
- D) the rate of change in marginal utility divided by the price.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

49) John has just eaten another potato chip and his total utility increased. This means that John's marginal utility for this additional potato chip is

- A) positive.
- B) negative.
- C) zero.
- D) not determinable without more information.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

50) John has just eaten another potato chip and his total utility decreased. This means that John's marginal utility for this additional potato chip is

- A) positive.
- B) negative.
- C) zero.
- D) not determinable without more information.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

51) Karen has decided that she would enjoy eating another cookie. Which of the following statements is consistent with Karen's decision?

- A) Karen's marginal utility has decreased with a corresponding decrease in total utility.
- B) Karen's marginal and total utility remain unchanged.
- C) Karen's marginal utility has decreased but it is unclear what has happened to total utility.
- D) Karen's total utility has increased but it is unclear what has happened to her marginal utility.

Answer: D

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 52) A well-known athlete loves cupcakes. He receives 200 utils for the first cupcake, an additional 160 for the second, an additional 120 for the third, another 80 for the fourth, and another 40 for the fifth. The marginal utility of the fourth cupcake is _____ and the total utility of consuming four cupcakes is _____.

A) 40; 80

B) 80; 600

C) 80; 560

D) 40; 40

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Sam loves cookies. She receives 200 utils for one cookie, 360 for two cookies, 480 for the third, 560 for four cookies, and 600 for five cookies. The marginal utility of the third cookie is

A) 120

B) 480

C) 80

D) unable to determine

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

Quantity of Movies Watched per Week	Michelle's Total Utility per Week	Robert's Total Utility per Week
0	0	0
1	100	100
2	195	190
3	270	270
4	340	340
5	390	400
6	420	350
7	435	390
8	445	420
9	450	440
10	440	450

- 54) Refer to the above table. The marginal utility of the 6th movie for Michelle is

A) 25 units of utility.

B) 30 units of utility.

C) 35 units of utility.

D) 40 units of utility.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Refer to the above table. The marginal utility of the 5th movie for Michelle is
- A) 40 units of utility.
 - B) 50 units of utility.
 - C) 60 units of utility.
 - D) 390 units of utility.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 56) Refer to the above table. The marginal utility of the 7th movie for Michelle is
- A) 15 units of utility.
 - B) 20 units of utility.
 - C) 35 units of utility.
 - D) 435 units of utility.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 57) Refer to the above table. The marginal utility of the 2nd movie for Robert is
- A) 95 units of utility.
 - B) 90 units of utility.
 - C) 80 units of utility.
 - D) 190 units of utility.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 58) Refer to the above table. The marginal utility of the 5th movie for Robert is
- A) 400 units of utility.
 - B) 50 units of utility.
 - C) 60 units of utility.
 - D) 70 units of utility.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 59) Refer to the above table. The marginal utility of the 8th movie for Robert is
- A) 30 units of utility.
 - B) 20 units of utility.
 - C) 420 units of utility.
 - D) 30 units of utility.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

60) Refer to the above table. What is the marginal utility for the 10th unit for Michelle and for Robert?

A) Michelle: 50; Robert: 50

B) Michelle: 15; Robert: 20

C) Michelle: 10; Robert: 10

D) Michelle: -10; Robert: 10

Answer: D

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

61) Refer to the above table. What is the marginal utility for the 3rd unit for Michelle and for Robert?

A) Michelle: -10; Robert: 20

B) Michelle: 75; Robert: 75

C) Michelle: 75; Robert: 80

D) Michelle: 270; Robert: 270

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

62) Refer to the above table. In examining the utility schedules for Michelle and Robert, we can conclude that

A) they like movies the same.

B) they like the third movie the same.

C) Michelle likes movies more than Robert does.

D) they both received the same satisfaction from watching the fourth movie.

Answer: D

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

63) The total utility of consuming 6 units of a good is 255. The marginal utility of the 6th unit is 45 and the marginal utility of the 5th unit is 60. The total utility of consuming 5 units of the good is

A) 300.

B) 150.

C) 210.

D) 195.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

64) When you buy something, you do so because of the satisfaction you expect to receive from having and using that good. Another term that can be used for satisfaction is

A) need.

B) purchasing power.

C) utility.

D) price elasticity.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 65) Economists once believed utility could be measured. The philosophical school based on the thought known as utilitarianism was developed by the English philosopher
- A) Jeremy Bentham.
 - B) Henri Leconte.
 - C) John Lennon.
 - D) Bernard Mandeville.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 66) Kathleen eats three TV dinners. The third TV dinner makes Kathleen sick. This means that for Kathleen
- A) the third TV dinner has little utility.
 - B) the third TV dinner has negative utility.
 - C) the opportunity cost of TV dinners is high.
 - D) TV dinners must be inexpensive.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 67) Marginal utility
- A) at first rises and then declines as a person consumes more of a good or service.
 - B) can be thought of as being the equivalent to total utility.
 - C) equals the total satisfaction from consumption of goods and services.
 - D) is stable, but then as a person consumes more of a good or service, has a propensity to increase.

Answer: A

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 68) The additional utility or satisfaction that one derives from consuming one more unit of any good or service is referred to as
- A) total utility.
 - B) substantive utility.
 - C) average utility.
 - D) marginal utility.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 69) The change in total utility derived when a customer consumes one more unit of a good or service is called
- A) total utility.
 - B) marginal utility.
 - C) average utility.
 - D) final utility.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 70) The equation for the calculation of marginal utility is
- A) total utility/number of units consumed.
 - B) change in total utility/number of units consumed.
 - C) change in total utility/change in number of units consumed.
 - D) total utility/change in number of units consumed.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 71) In economics, the term "marginal" refers to
- A) total.
 - B) a change in the total.
 - C) negative.
 - D) inverse.

Answer: B

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 72) Utility analysis assumes that the consumer's tastes and preferences are
- A) dependent on income and education.
 - B) predetermined and stable.
 - C) dependent on national origin.
 - D) dependent on geographic location.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 73) At the point at which total utility is at a maximum,
- A) marginal utility is at a minimum.
 - B) marginal utility is negative.
 - C) marginal utility is zero.
 - D) marginal utility is equal to total utility.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Total satisfaction is maximized when
- A) marginal utility is positive.
 - B) marginal utility is negative.
 - C) marginal utility is zero.
 - D) marginal utility is equal to total utility.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 75) As more of a product is consumed, total utility increases up to a point at which
- A) marginal utility increases at an increasing rate.
 - B) marginal utility increases at a constant rate.
 - C) marginal utility decreases.
 - D) marginal utility will initially decrease, then increase.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 76) When marginal utility is negative, total utility is
- A) increasing at a decreasing rate.
 - B) zero.
 - C) at its maximum.
 - D) decreasing.

Answer: D

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 77) When marginal utility is positive, total utility is
- A) increasing.
 - B) zero.
 - C) at its minimum.
 - D) decreasing.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 78) When marginal utility is zero, total utility is
- A) increasing.
 - B) at its maximum.
 - C) at its minimum.
 - D) decreasing.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 79) The marginal utility derived from viewing the next movie DVD is the
- A) average utility per minute of viewing.
 - B) additional utility from viewing the DVD.
 - C) average utility per hour of viewing.
 - D) additional utility from viewing the first minute of the DVD.

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

Question Status: Previous Edition

- 80) A rational consumer will NEVER purchase a product when its
- A) marginal utility is negative.
 - B) total utility is increasing at a decreasing rate.
 - C) marginal utility is decreasing.
 - D) total utility is decreasing at an increasing rate.

Answer: A

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 81) Economists assume that people make decisions regarding consumption based on comparing
- A) additional units of satisfaction with additional costs.
 - B) average satisfaction with additional costs.
 - C) average satisfaction with average costs.
 - D) additional units of satisfaction with average costs.

Answer: A

Diff: 3

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 82) If the commercial is correct that every additional bite tastes as good as the first, the marginal utility from consuming more of the advertised product must be
- A) increasing.
 - B) decreasing.
 - C) constant.
 - D) zero.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

- 83) If you and a group of friends have been consuming large quantities of liquid beverages on a hot summer afternoon and you decide to refrain from any additional consumption, it can be concluded that
- A) total utility has reached a minimum and the marginal utility of an additional drink would be large.
 - B) total utility has reached a maximum and the marginal utility of an additional drink would be small.
 - C) total utility has reached a maximum and the marginal utility of an additional drink would be zero.
 - D) total utility has reached a minimum and the marginal utility of an additional drink would be negative.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Reflective thinking skills

Question Status: Revised

- 84) If marginal utility is zero,
- A) a rational consumer will consume one more unit.
 - B) a rational consumer will consume one less unit next time.
 - C) a rational consumer will not consume additional units beyond this point.
 - D) a rational consumer will consume one more unit if the price is zero.

Answer: C

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: New

- 85) A certain athlete loves donuts. He receives 100 units of utility for the first donut, an additional 80 for the second, an additional 60 for the third, another 40 for the fourth, and another 20 for the fifth. The marginal utility of the fourth donut is _____ and the total utility from consuming four donuts is _____.

A) 40; 40 B) 40; 280 C) 140; 280 D) 280; 100

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

- 86) If the total utility derived from consuming three oysters was 40 utils and the total utility derived from consuming four oysters was 52 utils, what was the marginal utility derived from the consumption of the fourth oyster?
- A) 92 utils
 - B) 52 utils
 - C) 12 utils
 - D) It is impossible to determine.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

- 87) Assuming that the marginal utility of the first four pieces of candy was 30, 28, 24, and 18 respectively, how much total utility was derived from eating the first three pieces of candy?
- A) 58
 - B) 82
 - C) 54
 - D) 100

Answer: B

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

88) Utility analysis is the analysis of

- A) the formation of tastes and preferences.
- B) the differences of tastes and preferences across individuals.
- C) the consumption decisions of people based on utility maximization.
- D) how consumers determine the utility they receive from consumption.

Answer: C

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Revised

89) The utility analysis theory assumes that consumers try to

- A) maximize their average utility.
- B) maximize their marginal utility.
- C) maximize the difference between total and marginal utility.
- D) maximize their total utility.

Answer: D

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Revised

90) What is utility and what are its characteristics?

Answer: Utility is the want-satisfying power of a good or service. It is subjective, so that it cannot be measured objectively or by scientific instruments, and one person's utility cannot be compared to another's utility. It is not necessarily useful or utilitarian either. If an individual chooses a banana instead of an apple, we can say the person expects to receive more utility from the banana than from the apple.

Diff: 1

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

91) What is marginal utility? Why is the term "marginal" important in utility analysis?

Answer: Marginal utility is the change in total utility due to a one-unit change in the quantity of a good consumed. Marginal means additional or incremental. "Marginal" is important in utility analysis because an individual contemplating increasing consumption of an item by one additional unit compares the utility gain from that one additional unit consumed per dollar spent with the additional utility per dollar spent on all other items.

Diff: 1

Topic: 20.1 Utility Theory

Question Status: Previous Edition

92) What is utility analysis? What is the goal of this analysis?

Answer: Utility analysis is the analysis of consumer decision making based on utility maximization. Economists assume individuals act so as to maximize their utility. The goal of the analysis is to explain and predict consumer behavior. An important part of this is that utility analysis can be used to derive a demand curve, because utility governs people's preferences for goods and services.

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

93) What do we know about total utility when marginal utility is zero?

Answer: Marginal utility is the extra utility from consuming another unit of a good. If marginal utility is 0, total utility does not increase further when the consumer consumes the next unit, so total utility must be at its maximum value.

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Analytic skills

Question Status: Previous Edition

94) Suppose that Jacob is going to a buffet restaurant that allows him to eat as many chicken wings as he wants at a fixed price. How would you predict the number of chicken wings that Jack will eat using utility theory?

Answer: Utility theory predicts that Jacob will try to maximize his utility from his chicken wing consumption at the restaurant. This means that he will continue to eat one more chicken wing until his marginal utility becomes zero and so his total utility from the chicken wings is maximized.

Diff: 2

Topic: 20.1 Utility Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

20.2 Graphical Analysis

1) If marginal utility is positive but decreasing, total utility is

- A) decreasing. B) negative. C) increasing. D) constant.

Answer: C

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 2) When total utility is falling,
- A) marginal utility is at a maximum.
 - B) marginal utility is at zero.
 - C) marginal utility is negative.
 - D) marginal utility has decreased, but is now increasing.

Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 3) If marginal utility is positive but diminishing, then
- A) average utility must be negative.
 - B) marginal utility must be above-average utility.
 - C) total utility must be positive.
 - D) marginal utility must be more than total utility.

Answer: C

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 4) If marginal utility is zero, total utility is
- A) falling.
 - B) increasing.
 - C) at its maximum.
 - D) negative.

Answer: C

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 5) If we are graphing total utility, then the total utility curve will
- A) always be increasing.
 - B) always be decreasing.
 - C) be increasing as long as marginal utility is positive.
 - D) be horizontal if marginal utility is positive.

Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 6) As marginal utility declines but remains positive, then
- A) total utility continues to increase but at a decreasing rate.
 - B) total utility also declines.
 - C) total utility is unaffected.
 - D) none of the above.

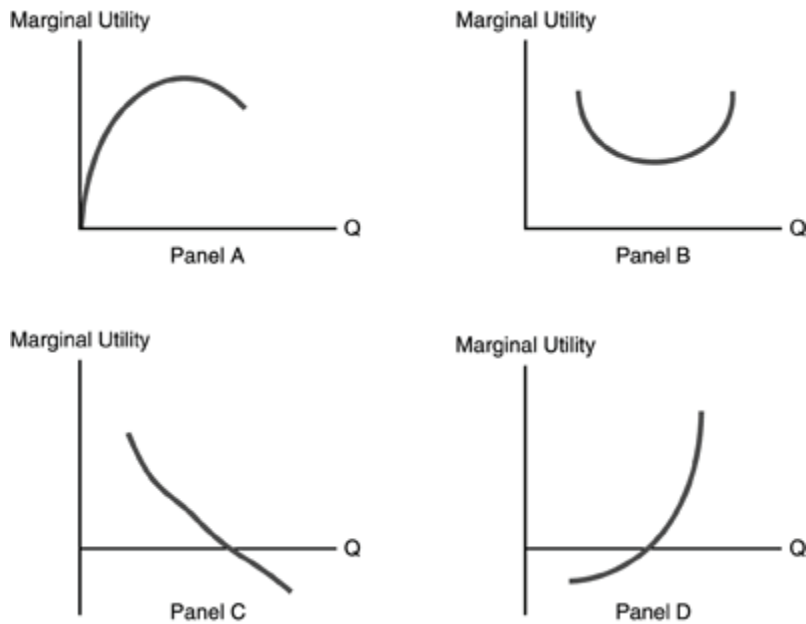
Answer: A

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition



- 7) Refer to the above figures. Which panel best represents marginal utility?
- A) Panel A.
 - B) Panel B.
 - C) Panel C.
 - D) Panel D.

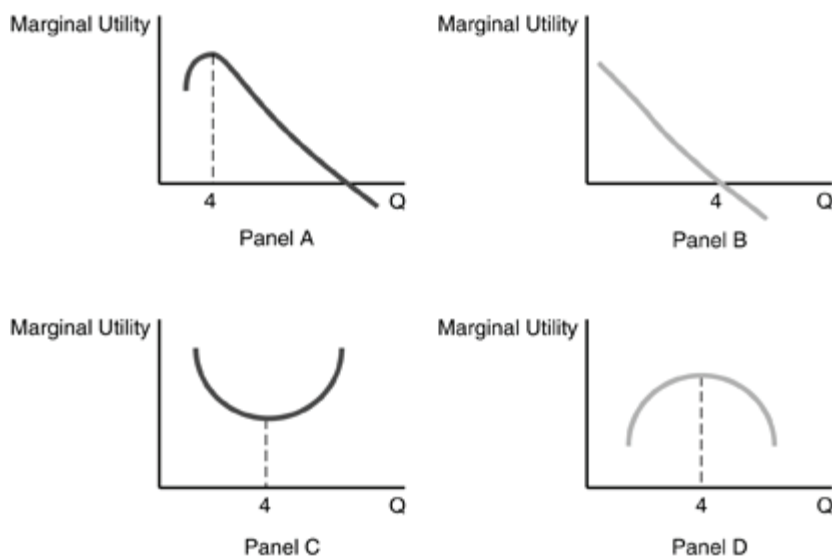
Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Revised



- 8) Refer to the above figures. Amy's total utility for chocolate chip cookies reaches a maximum at 4 cookies. Which panel best represents marginal utility?

A) Panel A B) Panel B C) Panel C D) Panel D

Answer: B

Diff: 3

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following statements is not true about marginal utility when total utility is at its maximum point?

A) Marginal utility is zero.
 B) Marginal utility is decreasing.
 C) A rational consumer will not consume additional units beyond this point.
 D) Marginal utility is undefined.

Answer: D

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 10) If marginal utility is zero,

A) total utility increases at a decreasing rate.
 B) total utility increases at an increasing rate.
 C) total utility is at a maximum.
 D) people will not consume the good even if the price is zero.

Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 11) If the price of a good is zero, a rational consumer will
- A) buy all of the units available.
 - B) not consume the good at all since it must not be valuable if it has a zero price.
 - C) stop consuming the good when total utility is maximized.
 - D) consume the good up to the point where total utility is just below zero.

Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

Slices of Pizza	Total Utility	Marginal Utility
1	50	
2	90	
3	120	
4	130	
5	137	
6	120	

- 12) In the above table, what is the marginal utility of the fourth slice of pizza consumed?
- A) 10
 - B) 30
 - C) 120
 - D) 130

Answer: A

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 13) In the above table, what is the marginal utility of the second slice of pizza consumed?
- A) 10
 - B) 90
 - C) 30
 - D) 40

Answer: D

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Revised

- 14) In the above table, what is the marginal utility of the sixth slice of pizza consumed?
- A) 7
 - B) 137
 - C) 120
 - D) -17

Answer: D

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

Number of Bottles of Soda	Total Utility	Marginal Utility
1	100	
2		20
3		15
4	140	

15) Using the above table, what is the total utility of consuming 2 bottles of soda?

- A) 115 B) 120 C) 140 D) 240

Answer: B

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

16) Using the above table, what is the total utility of consuming 3 bottles of soda?

- A) 115 B) 120 C) 240 D) 135

Answer: D

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

17) Using the above table, what is the marginal utility of the 4th soda?

- A) 23.2 B) 5 C) 10 D) 15

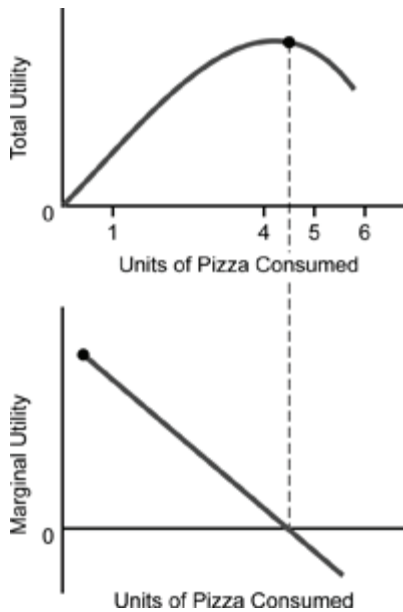
Answer: B

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition



- 18) Given the above figure, when Joey eats a third piece of pizza his marginal utility is _____ and his total utility is _____.

A) falling; falling B) falling; rising C) rising; falling D) rising; rising

Answer: B

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Given the above figure, if Joey was a rational consumer he would NOT eat more than _____ piece(s) of pizza.

A) 1 B) 5 C) 4 D) 6

Answer: C

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Revised

- 20) Given the above figure, marginal utility becomes negative when Joey consumes the _____ piece of pizza.

A) 1st B) 3rd C) 4th D) 5th

Answer: D

Diff: 2

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 21) When marginal utility is positive, but decreasing, then total utility is
- A) increasing at a decreasing rate.
 - B) negative.
 - C) decreasing.
 - D) increasing at an increasing rate.

Answer: A

Diff: 3

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

- 22) What is the relationship between marginal utility and total utility? What happens to total utility as marginal utility declines?

Answer: Marginal utility is the change in total utility resulting from a one-unit change in the consumption of a good or service. As marginal utility declines, the additional utility per unit consumed decreases, so total utility rises at a decreasing rate. When marginal utility reaches zero, total utility is at its maximum. If marginal utility continues to decline below a value of zero, so that marginal utility becomes negative, then total utility begins to fall.

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: New

- 23) "As an individual consumes more units of a good, her total utility falls because of the law of diminishing marginal utility." Do you agree or disagree? Explain.

Answer: Disagree. The law of diminishing marginal utility suggests that marginal utility eventually declines. Total utility continues to rise as long as marginal utility is positive. Total utility falls only when marginal utility is negative.

Diff: 1

Topic: 20.2 Graphical Analysis

AACSB: Analytic skills

Question Status: Previous Edition

20.3 Diminishing Marginal Utility

- 1) The principle that "as more of a good is consumed, its extra benefit declines" is known as
- A) the law of demand.
 - B) the law of diminishing marginal product.
 - C) the law of diminishing marginal utility.
 - D) the law of comparative advantage.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

Question Status: Previous Edition

- 2) If a dinner guest is serious when claiming he just could not get enough of your lasagna and that the more he ate the more he wanted, you would conclude that for him the marginal utility of lasagna was

A) increasing. B) decreasing. C) zero. D) constant.

Answer: A

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 3) If a person claims, "I wouldn't eat liver if you paid me," we can assume that his marginal utility of liver is

A) positive. B) positive, but decreasing.
C) zero. D) negative.

Answer: D

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 4) If someone complains that she doesn't feel very well because she ate too much pizza, we would conclude that the marginal utility of the last piece of pizza eaten was

A) positive. B) zero. C) very large. D) negative.

Answer: D

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 5) The law of diminishing marginal utility implies that the marginal utility for a particular product

A) remains constant, regardless of how much of the product is consumed.
B) remains constant as long as the product is still considered useful.
C) decreases as more of the product is consumed.
D) increases as more of the product is consumed.

Answer: C

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

Question Status: Revised

- 6) Typically, an individual takes only one newspaper from the bin because

A) of the low marginal utility of additional newspapers.
B) total utility will rise with consumption of more than one newspaper.
C) marginal utility increases with the first consumption of newspapers.
D) there are limited amounts of newspapers in the bin.

Answer: A

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 7) The principle of diminishing marginal utility suggests that
- A) total utility falls with additional consumption.
 - B) total utility is usually negative.
 - C) the consumer will never tire of additional units of a good.
 - D) the rate at which utility increases diminishes as more of a good is consumed.

Answer: D

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

Question Status: Previous Edition

- 8) Regretting a last unit of consumption of cake implies that
- A) the total utility from eating cake was negative.
 - B) cake is an inferior good.
 - C) the marginal utility of the last unit of cake consumed was negative.
 - D) the demand curve for cake is horizontal.

Answer: C

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 9) A rational individual will never consume a unit of a good if its
- A) marginal utility is diminishing.
 - B) marginal utility is less than average utility.
 - C) marginal utility is increasing.
 - D) marginal utility is negative.

Answer: D

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Revised

- 10) If marginal utility is negative,
- A) total utility increases at a decreasing rate.
 - B) the consumer considers extra units of the commodity to be a "bad."
 - C) the consumer will want to consume the unit only if it is free.
 - D) the consumer likes the commodity, but not as much as he or she once did.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 11) As an individual consumes more of a particular commodity, the total level of utility derived from that consumption usually
- A) increases at a constant rate.
 - B) increases at an increasing rate.
 - C) increases at a decreasing rate.
 - D) decreases at an increasing rate.

Answer: C

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Which economic principle accounts for the fact that all-you-can-eat buffet restaurants can be profitable?
- A) The law of demand
 - B) The principle of diminishing marginal utility
 - C) The principle of diminishing marginal product
 - D) The law of supply

Answer: B

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

Quantity	Total Utility
0	0
1	15
2	35
3	55
4	75
5	85
6	90

- 13) Refer to the above table. At what quantity does diminishing marginal utility set in?
- A) 1st.
 - B) After 4.
 - C) After 5.
 - D) After 6.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Revised

Quantity	Total Utility
0	0
1	10
2	25
3	35
4	42
5	47
6	49

- 14) Refer to the above table. At what quantity does diminishing marginal utility set in?
A) After 0. B) After 1. C) After 2. D) After 10.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

Quantity	Total Utility
0	0
1	10
2	25
3	45
4	60
5	68
6	72

- 15) Refer to the above table. At what quantity does diminishing marginal utility set in?
A) After 3. B) After 2. C) After 10. D) After 15.

Answer: A

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

Quantity Per Week	Total Utility			
	Amy	Robert	David	Michelle
0	0	0	0	0
1	5.0	100	600	60
2	9.9	190	1200	130
3	14.7	270	1800	220
4	19.4	340	2400	310
5	24.0	400	3000	425
6	28.5	450	3600	575
7	32.9	490	4200	900
8	37.2	520	4800	1275
9	41.4	510	5400	1770

- 16) Refer to the above table. Which of the four people have utility schedules characterized by the law of diminishing marginal utility?

A) Amy, Robert, and David only
 B) Michelle only
 C) Michelle and David only
 D) Amy and Robert only

Answer: D

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Refer to the above table. Amy's utility schedule shows

A) diminishing marginal utility throughout the entire schedule.
 B) initially increasing marginal utility and then decreasing marginal utility.
 C) initially decreasing marginal utility and then increasing marginal utility.
 D) increasing marginal utility throughout the entire schedule.

Answer: A

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Refer to the above table. Robert's utility schedule shows

A) diminishing marginal utility throughout the entire schedule.
 B) initially increasing marginal utility and then decreasing marginal utility.
 C) initially decreasing marginal utility and then increasing marginal utility.
 D) increasing marginal utility throughout the entire schedule.

Answer: A

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Refer to the above table. David's utility schedule is characterized by
- A) diminishing marginal utility.
 - B) increasing marginal utility.
 - C) constant marginal utility.
 - D) decreasing marginal utility.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Refer to the above table. Michelle's utility schedule is characterized by
- A) diminishing marginal utility.
 - B) increasing marginal utility.
 - C) constant marginal utility.
 - D) constant total utility.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Refer to the above table. The one who likes the good the most is
- A) David.
 - B) Michelle.
 - C) Robert.
 - D) uncertain since we cannot compare utility across people.

Answer: D

Diff: 3

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 22) As an individual consumes more of a particular commodity, the total level of utility derived from that consumption will
- A) increase at an increasing rate.
 - B) increase at a decreasing rate.
 - C) increase at a constant rate.
 - D) remain constant.

Answer: B

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Which of the following is NOT consistent with the law of diminishing marginal utility?
- A) Newspaper vending machines are not as secure as soft drink machines.
 - B) A student selects to eat at an all-you-can-eat restaurant rather than at a restaurant that charges for refills.
 - C) A student's enjoyment of opera increases the more she listens to it.
 - D) A symphony has free throat lozenges in their lobby.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

24) Increases in total utility from the consumption of a good decrease as more is consumed. This statement is

- A) the law of diminishing marginal utility.
- B) the law of average utility.
- C) the consumer optimum.
- D) false.

Answer: A

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

Question Status: Previous Edition

25) Olga buys a bag of potato chips every day after her economics class. The first potato chip always tastes wonderful. The second does not taste quite as good as the first. The third does not taste quite as good as the second. Olga is experiencing

- A) irrational behavior.
- B) the law of diminishing marginal utility.
- C) the income effect.
- D) the substitution effect.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

26) On a hot summer day, a construction worker enters a McDonald's fast-food restaurant. He orders the first Big Mac. He consumes it within 3 minutes. He then orders a second Big Mac and consumes it in 10 minutes. He eats only half of the third one in 18 minutes and throws away the rest. The store manager offers him the fourth for free. The construction worker says: "No thanks." Why?

- A) For the construction worker, total utility increased at an increasing rate.
- B) Marginal utility increased at an increasing rate.
- C) Marginal utility declined as he consumed additional Big Macs.
- D) The law of diminishing marginal utility does not apply to consumption of Big Macs.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

27) On a hot summer day, a construction worker enters a McDonald's fast-food restaurant. He orders the first Big Mac. He consumes it within 3 minutes. He then orders a second Big Mac and consumes it in 10 minutes. He eats only half of the third one in 18 minutes and throws away the rest. The store manager offers him the fourth for free. The construction worker says: "No thanks." For the construction worker described above, we can say that

- A) diminishing marginal utility set in only after he had consumed the second Big Mac.
- B) diminishing marginal utility began as soon as he had eaten the first Big Mac.
- C) diminishing marginal utility did not occur, he simply wanted to quit eating.
- D) the law of diminishing marginal utility only applies to durable goods.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 28) Carol is very hungry. She has just sat down to eat. Her first bite gives her a certain level of utility. Her second bite increases her utility by more than the first bite. Her third bite increases her utility by more than the second bite. Carol has 40 bites left before she finishes. Which of the following statements is true about Carol?

A) Carol is being inconsistent with the law of diminishing marginal utility.
B) Carol's total utility decreases with each bite.
C) Carol's marginal utility will be negative when she takes her last bite.
D) Carol will eventually experience diminishing marginal utility by the time she finishes eating, if her marginal utility begins to decline.

Answer: D

Diff: 3

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 29) Bill ate four hot dogs at the baseball game. The first one tasted best, but he found that as he ate more hot dogs the amount of extra satisfaction he was receiving was beginning to fall. This would demonstrate

A) the law of total utility maximization. B) the law of zero utility.
C) the law of diminishing marginal utility. D) the law of diminishing costs.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 30) The reason that all-you-can-eat restaurants can make a profit is due to

A) the law of demand.
B) the law of increasing relative costs.
C) the law of diminishing marginal utility.
D) the law of diminishing marginal returns.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 31) If your dinner guest said, "Every bite, including the last bite, tasted as good as the first," then the marginal utility for him

A) is decreasing. B) is increasing. C) is constant. D) is positive.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 32) Diminishing marginal utility means that as more of a good is consumed,
- A) the rate at which total utility increases starts to diminish.
 - B) the rate at which total utility increases stays the same.
 - C) the rate at which total utility increases starts to increase.
 - D) there is no impact on the rate of change of total utility.

Answer: A

Diff: 3

Topic: 20.3 Diminishing Marginal Utility

Question Status: Previous Edition

- 33) Which of the following statements is true with respect to total utility and marginal utility?
- A) Marginal utility always rises as total utility increases.
 - B) Marginal utility can decline as total utility rises.
 - C) Total utility is not related to marginal utility.
 - D) Total utility can decline while marginal utility rises.

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

Slices of Pizza	Total Utility	Marginal Utility
0	0	-
1	20	
2	50	
3		20
4		10
5		0

- 34) In the above table, the marginal utility of the second slice of pizza is
- A) 20.
 - B) 30.
 - C) 50.
 - D) 10.

Answer: B

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 35) In the above table, the total utility of 4 slices of pizza is
- A) 50.
 - B) 70.
 - C) 80.
 - D) 20.

Answer: C

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 36) In the above table, marginal utility begins to diminish after consumption of the
- A) second slice of pizza.
 - B) third slice of pizza.
 - C) fourth slice of pizza.
 - D) fifth slice of pizza.

Answer: A

Diff: 3

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 37) After consuming what quantity of pizza does the consumer in the table below experience diminishing marginal utility?

Quantity of Pizza	Marginal Utility of Pizza
1	100
2	80
3	60
4	40

- A) 1 B) 2 C) 3 D) 4

Answer: A

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

Quantity of Pizza	Marginal Utility of Pizza
1	50
2	25
3	0
4	-25

- 38) Using the above table, what is the maximum number of slices of pizza a rational consumer would buy?

- A) 4 B) 3 C) 2 D) 1

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Revised

- 39) Using the above table, what is the total utility of the third piece of pizza?

- A) 75 utils B) 0 utils C) 25 utils D) -25 utils

Answer: A

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

40) Using the above table, what is the total utility of the first piece of pizza?

- A) 0 utils B) 50 utils C) 75 utils D) 100 utils

Answer: B

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

41) When you tell your mother, "I'll never be tired of your cooking," you are saying the

- A) total utility of her cooking to you is constant.
 B) total utility of her cooking to you is equal to 1.
 C) marginal utility of her cooking to you is 0.
 D) marginal utility of her cooking to you will never be 0.

Answer: D

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

Glasses of		
Water	Total Utility	Marginal Utility
1	100	
2	175	
3	225	
4	250	
5	260	
6	255	

42) Using the above table, diminishing marginal utility begins after the _____ glass of water is consumed.

- A) 1st B) 2nd C) 6th D) 5th

Answer: A

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Revised

43) Using the above table, the marginal utility for the sixth glass of water is

- A) -5 utils. B) 255 utils. C) 5 utils. D) 260 utils.

Answer: A

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Newspaper vending machines are often built so that customers can pay to lift a door and take a paper off a pile of daily newspapers. Newspaper distributors are not concerned about customers taking the whole stack of papers because

A) the total utility of a daily newspaper is zero.
B) the marginal utility of any one daily newspaper is zero.
C) the marginal utility of a second daily newspaper is zero.
D) the price of a daily newspaper is relatively low.

Answer: C

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Revised

- 45) Why does total utility rise at a decreasing rate as an individual's consumption of an item increases?

Answer: This is due to the principle of diminishing marginal utility. As more of any good or service is consumed, its extra benefit declines, meaning that the extra utility from consuming each additional unit of the item falls off as consumption increases.

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 46) What is the principle of diminishing marginal utility?

Answer: The principle of marginal utility is that as more of any good is consumed the extra satisfaction derived declines. Increases in total utility from the consumption of a good becomes smaller and smaller as more of the good is consumed in a given time period.

Diff: 1

Topic: 20.3 Diminishing Marginal Utility

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Restaurants that allow customers to eat as much as they want for a fixed price must make money or they would not remain in business. How can they earn profits when people can always eat more so that the restaurant's costs keep getting higher? What practice that regular restaurants use will not be used by all-you-can-eat places?

Answer: Restaurants are relying on the principle of diminishing marginal utility. Eventually the marginal utility of the food will go so low or even become negative so people will quit eating. Such restaurants do not offer "doggie bags," because this would allow people to take extra food and eat it later when the marginal utility would again be higher, thereby increasing the costs of "all-you-can-eat" restaurants.

Diff: 3

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

48) Jill likes lobsters but she does not eat lobsters in every meal. How can utility theory explain this?

Answer: Even though Jill likes lobsters, she is probably facing diminishing marginal utility from lobster consumption over a given period of time. Her marginal utility from eating more lobsters within a week after a meal of lobsters might be zero. Thus, she does not want to eat any more lobsters in that week.

Diff: 2

Topic: 20.3 Diminishing Marginal Utility

AACSB: Reflective thinking skills

Question Status: Previous Edition

20.4 Optimizing Consumption Choices

- 1) In order to maximize utility, a consumer should allocate money income so that
 - A) the marginal utility of the last unit of each product consumed is greater than the total utility of each product consumed.
 - B) the total utility derived from each product consumed is the same.
 - C) the marginal utility obtained from the last dollar spent on each product is the same.
 - D) the elasticity of demand on all products purchased is the same.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 2) Suppose Isaac's marginal utility from attending his 5th White Sox game was 40 and the marginal utility from attending his 1st U2 concert was 200. Assume that the price of a Sox ticket is \$20 and the price of a U2 ticket is \$120. Which of the following would be true?
 - A) Isaac would attend more U2 concerts and less Sox games.
 - B) Isaac would attend more Sox games and less U2 concerts.
 - C) Isaac would not alter his behavior.
 - D) Isaac would attend less of both Sox games and U2 concerts.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 3) If a consumer concludes that the marginal utility of the last dollar spent on vegetables exceeds the marginal utility of the last dollar spent on junk food, he will respond by
 - A) consuming relatively more junk food and fewer vegetables.
 - B) consuming relatively more vegetables and less junk food.
 - C) consuming equal amounts of vegetables and junk food.
 - D) halting consumption of junk food altogether.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 4) For good A and good B, the consumer maximizes personal satisfaction when
- A) $MU_A/P_A = P_B/MU_B$. B) $P_A/MU_A = P_B/MU_B$.
 C) $MU_A/P_A = MU_B/P_B$. D) $MU_A/MU_B = P_A/P_B$.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Revised

Bob's Marginal Utility for consuming beer and pizza with \$8.00 in income

Quantity of Pizza	Marginal Utility	Quantity of Beer	Marginal Utility
1	45	1	40
2	40	2	40
3	30	3	35
4	15	4	10
5	-5	5	0

- 5) In the above table, Bob experiences diminishing marginal utility after consuming how many pieces of pizza?
- A) 1 B) 2 C) 3 D) 4

Answer: A

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 6) In the above table, Bob experiences diminishing marginal utility after consuming how many beers?
- A) 1 B) 2 C) 3 D) 4

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 7) In the above table, how much total utility does Bob get from consuming 4 beers?
- A) 10 utils B) 45 utils C) 125 utils D) 115 utils

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

- 8) According to the above table, how much total utility does Bob get from 3 pieces of pizza?
A) 30 utils B) 85 utils C) 115 utils D) 130 utils

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 9) In the above table, how much beer and pizza will Bob consume if the price of a piece of pizza is \$2.00 and the price of a beer is \$2.00?

- A) 1 piece of pizza and 3 beers B) 2 pieces of pizza and 2 beers
C) 2 pieces of pizza and 3 beers D) 3 pieces of pizza and 1 beer

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Referring to the above table, suppose Bob's ratios of marginal utility of beer to the price of beer and the marginal utility of pizza to the price of pizza are equal. If the price of beer increases
- A) Bob will probably consume more beer and less pizza.
B) Bob will probably consume less beer and less pizza.
C) Bob will probably consume less beer and more pizza.
D) Bob will still consume the same amount of beer and pizza.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Assume that Jackie concludes that he should eat less and play racquetball more. In this situation, it must be true that the marginal utility of the last dollar spent on food is
- A) more than the marginal utility of the last dollar spent on racquetball.
B) less than the marginal utility of the last dollar spent on racquetball.
C) equal to the marginal utility of the last dollar spent on racquetball.
D) negative and less than the marginal utility of the last dollar spent on racquetball.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 12) For any two goods, X and Y, if MU_X divided by P_X equals 2.5 and MU_Y divided by P_Y equals 4.0, then with given income and prices the consumer should
- A) buy more of good X and less of good Y.
 - B) buy more of good Y and less of good X.
 - C) buy all of good Y and no X.
 - D) stop because an equilibrium is achieved.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Dr. Rodriguez is consuming beer and wine. At his current level of consumption, the marginal utility per dollar is 30 units for beer and 15 units for wine. Dr. Rodriguez should
- A) consume twice as much beer as wine.
 - B) consume twice as much wine as beer.
 - C) increase his consumption of beer relative to wine.
 - D) increase his consumption of wine relative to beer.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Despite the fact that water is necessary to sustain life, it is less expensive than soft drinks. Economic theory suggests that this is so because
- A) there is a conspiracy among soft drinks producers to hold prices artificially high.
 - B) although the total utility of water consumption is high, its marginal utility per dollar spent is low when compared to soft drinks.
 - C) consumers are irrational.
 - D) sellers of water hold the price of water artificially low because of its importance.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 15) The consumer optimum for consuming two goods is achieved when
- A) the total utility from each good is equal.
 - B) the price of each good is equal.
 - C) the price multiplied by the marginal utility is equal for the two goods.
 - D) the marginal utility per last dollar spent is equal for the two goods.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 16) The consumer optimum (for two goods, a and b) is reached when
- A) $TU_a = TU_b$. B) $MU_a = MU_b$.
 C) $TU_a/P_a = TU_b/P_b$. D) $MU_a/P_a = MU_b/P_b$.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 17) The price of good "a" is \$5 and the price of good "b" is \$15. If the marginal utility of good "a" is 20 then the marginal utility of good "b" must be _____ to have an optimum combination of goods purchased.
- A) 4 B) 20 C) 60 D) 80

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The marginal utility of good A is 6 and the marginal utility of good B is 15. The price of good A is \$2. The price of good B must be _____ if the consumer is optimizing her utility.
- A) \$2 B) \$5 C) \$45 D) \$15

Answer: B

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

- 19) When the marginal utility per dollar of good x exceeds the marginal utility per dollar of good y,
- A) the consumer should consume more of good x.
 B) the consumer is consuming too much of good x.
 C) good y must have a negative marginal utility.
 D) the consumer is in an optimal situation if the price of good x exceeds the price of good y.

Answer: A

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Assume that the marginal utility from good x is 10 units and that the price of good x is \$5 per unit. The marginal utility from good y is 15 units and its unit price is \$7. In this situation, a utility-maximizing consumer should
- A) consume more of good x. B) consume only good y.
 C) consume more of good y. D) consume neither x nor y.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

21) Using the utility-optimizing model, which of the following would induce a consumer to increase consumption of good x, a normal good?

- A) An increase in the marginal utility of x
- B) A decrease in the total utility of y
- C) An increase in the marginal utility of good y
- D) A decrease in income

Answer: A

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

22) In a restaurant we can observe people consuming coffee, tea, and soft drinks. All are priced the same. If Sally consumes coffee and Ali consumes soft drinks, we can conclude that

- A) Bill will be drinking tea.
- B) Sally likes coffee more than Ali does, and Ali likes soft drinks more than Sally does.
- C) Sally derives more utility from coffee than from tea or soft drinks, and Ali derives more utility from soft drinks than from tea or coffee.
- D) the utility Sally receives from coffee consumption equals the utility that Ali receives from consuming soft drinks.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Previous Edition

23) Consumers do not buy as many units of each good as they want because

- A) of the law of diminishing marginal utility.
- B) they have limited incomes.
- C) they do not know what they want in all situations.
- D) eventually marginal utility equals zero.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

24) The consumer optimum is the set of goods and services, subject to the limited income of the consumer, that

- A) the consumer can afford to buy.
- B) is characterized by zero marginal utility on each good and service.
- C) maximizes the level of satisfaction for each consumer.
- D) is characterized by increasing marginal utility.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 25) A consumer with unlimited income will continue consuming goods until
- A) the marginal utility of each is equal to zero.
 - B) the marginal utility of each is negative.
 - C) total utility rises.
 - D) marginal utility equals total utility.

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 26) The price of a hamburger is \$1, the price of a movie is \$5, and the consumer has \$13. A consumer has purchased 3 hamburgers and two movies, receiving 10 units of utility for the last hamburger and 10 units of utility for the last movie. The set of goods
- A) is an optimum since the entire income is spent and the marginal utility is the same for the last unit of each good.
 - B) is an optimum because the consumer has maximized her utility given the limited income she had.
 - C) is not an optimum because the marginal utility per dollar spent is greater for the hamburger than for the movie.
 - D) is not an optimum because the marginal utility for the second hamburger was less than the marginal utility for the first hamburger.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 27) A consumer has spent all of his funds on hamburgers and movies. The price of a hamburger is \$1 and the price of a movie is \$5. The marginal utility of the last hamburger is 5 and the marginal utility of the last movie is 40. This consumer has
- A) not maximized utility. To maximize utility, he should cut back on movies and buy more hamburgers.
 - B) not maximized utility. To maximize utility, he should cut back on hamburgers and buy more movies.
 - C) not maximized utility. To maximize utility, he should cut back consumption of each.
 - D) maximized utility.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

Quantity of Hamburgers/Wk	Total Utility	Quantity of Movies/Wk	Total Utility
0	0	0	0
1	25	1	200
2	45	2	260
3	55	3	300
4	60	4	320
5	61	5	325

- 28) Refer to the above table. Assume the consumer spends his entire income. If the consumer's optimum at the current price of a movie is at 4 hamburgers and 4 movies, and the price of a hamburger is \$1, what is the consumer's income?

A) \$28 B) \$20 C) \$16 D) \$40

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

- 29) Refer to the above table. Assume the consumer spends his entire income. The price of a hamburger is \$1, the price of a movie is \$6, and the consumer has \$15. What is the consumer's optimum?

A) 2 hamburgers and 2 movies B) 3 hamburgers and 2 movies
C) 4 hamburgers and 4 movies D) 0 hamburgers and 2.5 movies

Answer: B

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 30) When Stephanie increases the consumption of pizza and decrease the consumption of soda, her marginal utility of

A) pizza falls and the marginal utility of soda will increase.
B) both pizza and soda will decrease.
C) pizza increases and the marginal utility of soda will fall.
D) both pizza and soda will increase.

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: New

Quantity of Magazines/Wk	Total Utility	Quantity of Paperback Books/Wk	Total Utility
0	0	0	0
1	50	1	300
2	90	2	500
3	120	3	600
4	130	4	650
5	132	5	675
6	132	6	680

- 31) The price of a magazine is \$2, the price of a paperback book is \$5, and the consumer has \$33.

According to the above table, the rational consumer will purchase

- A) 1 magazine and 2 books. B) 2 magazines and 3 books.
C) 4 magazines and 5 books. D) 5 magazines and 6 books.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Refer to the above table. If a consumer's optimum consists of 3 magazines and 6 books, then

- A) the price of a magazine is six times more than the price of a book.
B) the price of a magazine is three times more than the price of a book.
C) the price of a book is more than five times more than the price of a magazine.
D) the price of a book is six times more than the price of a magazine.

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 33) According to utility theory, consumer purchase decisions are made such that

- A) the value of the ratio of marginal utility to price for the last units purchased and consumed is equal.
B) the difference between the value of the marginal utility of the last unit purchased and the price paid is maximized.
C) the total utility of the last unit purchased is equal to the price of that unit.
D) the total utility from consuming the good is less than the marginal utility of the last unit consumed.

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 34) Consumers usually buy fewer units of a good than the quantity that would maximize total utility from consuming the good because
- A) they are not rational.
 - B) of the law of demand.
 - C) they have limited incomes.
 - D) marginal utility becomes zero after just a few units of the good.

Answer: C

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The consumer optimum is defined as
- A) the set of goods and services that maximizes marginal utility for each good.
 - B) the set of goods and services such that the marginal utility of each good equals zero.
 - C) the set of goods and services that maximizes the marginal utility of each good consumed.
 - D) the set of goods and services, subject to the limited income of the consumer, that maximizes the total utility of the consumer.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 36) The set of goods and services that maximizes the level of satisfaction for each consumer subject to limited income is
- A) the consumer optimum.
 - B) diminishing marginal utility.
 - C) increasing marginal utility.
 - D) substitution effect.

Answer: A

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 37) A consumer's optimum is found when
- A) the marginal utility of the last dollar spent equals zero for each good.
 - B) the marginal utility of each good is increasing and the total income is spent.
 - C) the total utility of each good is the same and the total income is spent.
 - D) the marginal utility of the last dollar spent on each good is the same and all income is spent.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 38) A consumer's optimum is found when
- A) prices of goods go down.
 - B) the consumer is achieving the maximum level of utility given market prices and their limited income.
 - C) the marginal utility of the last dollar spent equals 0 for every good.
 - D) the consumer saves part of their income.

Answer: B

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 39) A consumer has spent all of his income on hamburgers and movies. The price of a hamburger is \$1 and the price of a movie is \$6. The marginal utility of the last hamburger is 5 and the marginal utility of the last movie is 24. The consumer has
- A) maximized utility.
 - B) not maximized utility. He should cut back on movies and buy more hamburgers.
 - C) not maximized utility. He should cut back on hamburgers and buy more movies.
 - D) not maximized utility. He should cut back consumption of each good.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 40) The price of a hamburger is \$1, and the price of a movie is \$6. The consumer has purchased 2 hamburgers and 2 movies, and her marginal utility from the second hamburger is 20 and from the second movie is 120. The consumer has an income of \$21. This combination of goods
- A) maximizes utility and is an optimum because the marginal utility of the last dollar spent on each good is the same.
 - B) maximizes utility because the marginal utility of the last dollar spent on each good is the same, but it is not an equilibrium because marginal utility is not zero.
 - C) is not an optimum because the consumer has not spent all of her money.
 - D) is not an optimum because the marginal utility of the last dollar spent on each good is not the same.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 41) The price of a hamburger is \$1 and the price of a movie is \$6 and the consumer has \$14. A consumer has purchased 2 hamburgers and 2 movies, receiving 20 units of utility for the second hamburger and 100 units of utility for the second movie. The set of goods
- A) is an optimum since the entire income is spent and the marginal utility per dollar spent is the same for the last unit of each good.
 - B) is an optimum since the entire income is spent and total utility is maximized.
 - C) is not an optimum because the marginal utility per dollar spent is greater for hamburgers than for movies and the consumer is not spending all of his income.
 - D) is not an optimum because the marginal utility for each good is not equal.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 42) The price of a hamburger is \$1 and the price of a movie is \$4 and the consumer has \$10. A consumer has purchased 2 hamburgers and 2 movies, receiving 25 units of utility for the second hamburger and 100 units of utility for the second movie. The set of goods
- A) is an optimum since the entire income is spent and the marginal utility per dollar spent is the same for the last unit of each good.
 - B) is an optimum since the entire income is spent and total utility is minimized.
 - C) is not an optimum because the marginal utility per dollar spent is greater for hamburgers than for movies.
 - D) is not an optimum because the consumer has not spent all of his money.

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The price of hamburgers is \$2 and the price of movies is \$4. The consumer has \$14 of income. The consumer is purchasing 3 hamburgers and receiving 20 utils for the last hamburger. He is also purchasing 2 movies and receiving 40 utils for the last movie. This set of goods
- A) is an optimum since the entire income is spent and the marginal utility per dollar spent is the same for the last unit of each good.
 - B) is an optimum since the entire income is spent and total utility is minimized.
 - C) is not an optimum because the marginal utility per dollar spent is greater for hamburgers than for movies.
 - D) is not an optimum because the consumer has not spent all of his money.

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 44) The price of hamburgers is \$2 and the price of movies is \$4. The consumer has \$16 of income. The consumer is purchasing 3 hamburgers and receiving 20 utils for the last hamburger. He is also purchasing 2 movies and receiving 40 utils for the last movie. This set of goods
- A) is an optimum since the entire income is spent and the marginal utility per dollar spent is the same for the last unit of each good.
 - B) is an optimum since the entire income is spent and total utility is maximized.
 - C) is not an optimum because the marginal utility per dollar spent is greater for hamburgers than for movies.
 - D) is not an optimum because the consumer has not spent all of his money.

Answer: D

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The price of hamburgers is \$2 and the price of movies is \$4. The consumer has \$14 of income. The consumer is purchasing 3 hamburgers and receiving 30 utils for the last hamburger. He is also purchasing 2 movies and receiving 40 utils for the last movie. This set of goods
- A) is an optimum since the entire income is spent and the marginal utility per dollar spent is the same for the last unit of each good.
 - B) is an optimum since the entire income is spent and total utility is maximized.
 - C) is not an optimum because the marginal utility per dollar spent is greater for hamburgers than for movies.
 - D) is not an optimum because the consumer has not spent all of his money.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 46) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$4. The price of Good B is \$1. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 47) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$4. The price of Good B is \$2. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 48) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$1. The price of Good B is \$10. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 49) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$10. The price of Good B is \$1. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 50) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$2. The price of Good B is \$5. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 51) John is currently spending all of his income. For the last unit of Good A consumed John gets 20 utils and for the last unit of Good B consumed he gets 10 utils. The price of Good A is \$10. The price of Good B is \$5. If John wants to maximize his utility he should
- A) continue to purchase the same amount of Good A and Good B.
 - B) increase the consumption of Good A and decrease the consumption of Good B.
 - C) decrease the consumption of Good A and increase the consumption of Good B.
 - D) decrease the consumption of Good A and decrease the consumption of Good B.

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 52) When Bonnie increases the consumption of Good A and decrease the consumption of Good B, her marginal utility of
- A) A falls and the marginal utility of B will increase.
 - B) both A and B will decrease.
 - C) A increases and the marginal utility of B will fall.
 - D) both A and B will increase.

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: New

Quantity of Hamburgers/Wk	Total Utility	Quantity of Broadway Shows/Wk	Total Utility
1	40	1	400
2	60	2	700
3	76	3	850
4	86	4	950
5	91	5	1000
6	93	6	1025

- 53) Refer to the above table. If the price of a hamburger is \$2, the price of a Broadway Show is \$60, and the consumer has \$128, what is the consumer optimum?
- A) 2 hamburgers and 2 Broadway shows.
 - B) 2 hamburgers and 3 Broadway shows.
 - C) 3 hamburgers and 2 Broadway shows.
 - D) 4 hamburgers and 2 Broadway shows.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

54) Refer to the above table. If the price of a hamburger is \$2, the price of a Broadway Show is \$60, and the consumer has \$190, what is the consumer optimum?

- A) 4 hamburgers and 2 Broadway shows. B) 5 hamburgers and 3 Broadway shows.
C) 6 hamburgers and 0 Broadway shows. D) 0 hamburgers and 6 Broadway shows.

Answer: B

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

55) If the price of X is \$3 and the price of Y is \$5, then, in a consumer optimum,

- A) the quantity purchased of Y must be 60 percent of the quantity of X purchased.
B) the quantity purchased of Y must be 67 percent of the quantity of X purchased.
C) the marginal utility of Y must be 67 percent more than the marginal utility of X.
D) the marginal utility of X must equal 3 and the marginal utility of Y must equal 5.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

Quantity of Magazines/Wk	Total Utility	Quantity of Paperbacks/Wk	Total Utility
0	0	0	0
1	60	1	200
2	100	2	400
3	130	3	500
4	140	4	550
5	142	5	575
6	142	6	580

56) Refer to the above table. If the price of a magazine is \$2 and the price of a paperback book is \$5 and the consumer has \$40, the rational consumer will purchase

- A) 2 magazines and 2 books. B) 2 magazines and 3 books.
C) 5 magazines and 6 books. D) 6 magazines and 6 books.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

57) Refer to the above table. If the price of a magazine is \$2 and the price of a paperback book is \$5 and the consumer has \$19, the rational consumer will purchase

- A) 2 magazines and 2 books. B) 2 magazines and 3 books.
C) 5 magazines and 6 books. D) 6 magazines and 6 books.

Answer: B

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 58) Refer to the above table. If the price of a magazine is \$2 and the price of a paperback book is \$5 and the consumer has \$33, the rational consumer will purchase
- A) 2 magazines and 2 books.
 - B) 2 magazines and 3 books.
 - C) 5 magazines and 6 books.
 - D) 4 magazines and 5 books.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 59) Refer to the above table. If the consumer's equilibrium consists of 4 magazines and 4 books, then we know that
- A) the price of a magazine is 5 times more than the price of a book.
 - B) the price of a magazine is 6 times more than the price of a book.
 - C) the price of a book is 5 times more than the price of a magazine.
 - D) the price of a book is 3 times more than the price of a magazine.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 60) Refer to the above table. If the consumer's equilibrium consists of 3 magazines and 6 books, then we know that
- A) the price of a magazine is 4.5 times more than the price of a book.
 - B) the price of a magazine is 6 times more than the price of a book.
 - C) the price of a book is 2 times more than the price of a magazine.
 - D) the price of a book is 3 times more than the price of a magazine.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: New

Quantity of A	TU _a	Quantity of B	TU _b
1	18	1	10
2	33	2	18
3	42	3	22
4	48	4	24
5	51	5	25

- 61) The price of product A is \$3, the price of product B is \$2, and you have \$18 to spend. What combination of product A and product B will give you the most satisfaction?

- A) 5 units of product A; 1 unit of product B
- B) 4 units of product A and 3 units of product B
- C) 2 units of product A and 5 units of product B
- D) 3 units of product A and 5 units of product B

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

Quantity of A	MU _a	Quantity of B	MU _b	Quantity of C	MU _c
1	15	1	12	1	15
2	12	2	10	2	10
3	9	3	8	3	5
4	6	4	4	4	4

- 62) Based on the information in the above table, the price of A is \$3, the price of B is \$2, and the price of C is \$5. If Mary has \$22 to spend, what combination of products A, B, and C should she buy in order to maximize her satisfaction?

- A) 3 units of product A; 3 units of product B; 1 unit of product C
- B) 2 units of product A; 3 units of product B; 2 units of product C
- C) 3 units of product A; 4 units of product B; 0 units of product C
- D) 2 units of product A; 1 unit of product B; 4 units of product C

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Based on the information in the above table, what is the total satisfaction Mary can achieve if she is a wise consumer?

- A) 111 utils
- B) 82 utils
- C) 74 utils
- D) 30 utils

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

Quantities	MU _{apples} (Adam)	MU _{oranges} (Adam)	Quantities	MU _{apples} (Eve)	MU _{oranges} (Eve)
1	40	30	1	15	20
2	30	20	2	10	15
3	25	15	3	8	12
4	20	12	4	5	10

64) Adam has 3 apples and 3 oranges. Eve has 2 apples and 2 oranges. The marginal utilities for Adam and Eve are summarized in the above table. Adam asks Eve to exchange one of her apples for an orange.

- A) Eve will be willing to make the exchange, because her total satisfaction will remain unchanged.
- B) Eve will be willing to make the exchange, because her total satisfaction will increase.
- C) Eve will be unwilling to make the exchange, because she loses 5 utils of satisfaction.
- D) Eve will be unwilling to make the exchange, because she loses 15 utils of satisfaction.

Answer: B

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

65) Use the above table. Adam has 3 apples and 3 oranges. Eve has 2 apples and 2 oranges. Eve asks Adam to give her an apple in exchange for an orange. Should Eve go through with this exchange?

- A) Yes. This way she will have 3 apples, which will give her more total satisfaction.
- B) Yes. She is indifferent between consuming apples and oranges.
- C) No. She gives up more satisfaction than she gets.
- D) No. Adam likes apples more than oranges.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

66) Your allergies are bad this summer so your allergist writes you a prescription to relieve your symptoms. When you get to the pharmacy, you notice the name brand allergy medicine is more expensive than its generic equivalent. You purchase the generic equivalent and demonstrate all of the following EXCEPT

- A) the principle of substitution of one product for another.
- B) the principle of diminishing marginal utility.
- C) when price decreases, the quantity demanded increases.
- D) a price change may affect consumer optimum.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 67) A consumer is buying the optimal amount of goods when
- A) the total utility from the purchases on all the goods purchased is the same.
 - B) the marginal utility from the purchases of all the goods purchased is the same.
 - C) the marginal utility per last dollar spent on all of the goods purchased is the same.
 - D) the marginal utility from the purchases of all the goods is equal to 1.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 68) When a consumer is at the consumer optimum,
- A) $MU_a = MU_b = MU_c = \dots = MU_n$.
 - B) $MU_a/P_a = MU_b/P_b = MU_c/P_c = \dots = MU_n/P_n = 1$.
 - C) $TU_a = TU_b = TU_c = \dots = TU_n$.
 - D) $MU_a/P_a = MU_b/P_b = MU_c/P_c = \dots = MU_n/P_n$.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 69) Which of the following best describes the consumer optimum?
- A) $MU_a/P_a = TU_b/P_b$
 - B) $MU_a/TU_a = P_a$
 - C) $MU_a/P_a = MU_b/P_b = \dots = MU_z/P_z$
 - D) change in TU/change in P = MU

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 70) A consumer who has chosen the right mix of goods and services to maximize his or her utility is said to have achieved
- A) consumer equilibrium.
 - B) consumer benefit.
 - C) consumer surplus.
 - D) consumer optimum.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 71) When DVDs and hamburgers were the same price, Mavis consumed 3 hamburgers and 5 DVDs, and Mavis received 10 utils from the last hamburger and 15 utils from the last DVD consumed. What should be Mavis' consumption strategy?
- A) consume more DVDs and fewer burgers
 - B) consume more burgers and fewer DVDs
 - C) consume more of both items
 - D) consume less of both items

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 72) The idea that consumers continue to adjust their purchases until the marginal utility per last dollar spent on all items is equal is called the
- A) law of increasing costs.
 - B) law of diminishing marginal utility.
 - C) rule of 72.
 - D) consumer optimum.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 73) Peter consumes bags of potato chips and cans of soft drink. The marginal utility of bags of potato chips is 10 utils per bag and the marginal utility of cans of soft drink is 50 utils per can. Potato chips cost \$0.50 a bag, and a can of soft drink costs \$1.00. What should Peter do?
- A) Peter should eat more chips, because they cost less.
 - B) Peter should buy more chips and less soft drink.
 - C) Peter should buy more soft drink, because it costs less.
 - D) Peter should buy more soft drink and fewer potato chips.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Based on the material presented in the chapter, can we conclude that people will consume goods until the marginal utility of each good is zero?
- A) Yes, because at that point total utility is maximum.
 - B) Yes, because at that point marginal utility is minimum.
 - C) No, because consumption is determined by total utility.
 - D) No, because consumption is determined by the marginal utility/price ratio.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 75) The price of a can of soft drink is \$1.25 and the marginal utility of the second can consumed is 10 utils. The marginal utility of the third donut is 4 utils. You should only consume the third donut if the price of the donut is less than or equal to
- A) \$0.41.
 - B) \$0.625.
 - C) \$0.25.
 - D) \$0.50.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 76) If the last \$5 spent on movies added 30 utils to your total satisfaction and the last \$8 spent on books add 64 utils,
- A) you can increase your satisfaction by buying more books and seeing fewer movies.
 - B) your total satisfaction is 94 utils.
 - C) you can increase your satisfaction by buying fewer books and seeing more movies.
 - D) you can increase your satisfaction by buying only books.

Answer: A

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 77) The state of consumer optimum is reached when the consumer's
- A) total utility/marginal utility ratio for all items is equal.
 - B) total utility/price ratio for all items is equal.
 - C) marginal utility for a product is zero.
 - D) marginal utility/price ratios for all items are equal.

Answer: D

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

Question Status: Previous Edition

- 78) You consider yourself to be wise consumer. The marginal utility/price ratio of coffee is 12 utils per dollar. If the price of a donut is \$0.75, you should only buy the donut if it gives you at least
- A) 16 utils of satisfaction.
 - B) 9 utils of satisfaction.
 - C) 12 utils of satisfaction.
 - D) The answer cannot be determined with this information.

Answer: B

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 79) When a consumer shifts his purchases from product A to product B, the marginal utility of
- A) A falls and the marginal utility of B will increase.
 - B) both A and B will decrease.
 - C) A increases and the marginal utility of B will fall.
 - D) both A and B will increase.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition

- Question Status: Previous Edition*

- Question Status: Previous Edition*

- 84) Assume that Jack has the preferences shown in the above table. Also assume that the price of a can of Pepsi is \$3.00 and that the price of a slice of pizza is \$1.00. If he has \$16 available to spend, what combination of Pepsi and pizza will be his consumer optimum?

A) 4 cans of Pepsi, 1 slice of pizza
 B) 3 cans of Pepsi, 2 slices of pizza
 C) 2 cans of Pepsi, 4 slices of pizza
 D) 4 cans of Pepsi, 4 slices of pizza

Answer: D

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 85) The expression "getting the most bang for your buck" is an illustration of the

A) total utility/price ratio.
 B) total utility/marginal utility ratio
 C) marginal utility/price ratio.
 D) marginal utility/total utility ratio.

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 86) Suppose that a consumer is currently at an optimum when consuming goods A and B. Which of the following must be true?

A) The total utility from A is equal to the total utility from B.
 B) The price of A is equal to the price of B.
 C) The marginal utility of A is equal to the marginal utility of B.
 D) The marginal utility to price ratio of A is equal to the marginal utility to price ratio of B.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

Question Status: Revised

Quantity of Hamburgers/Wk	Total Utility	Quantity of Movies/Wk	Total Utility
1	40	1	400
2	60	2	700
3	76	3	850
4	86	4	950
5	91	5	1000
6	93	6	1025

- 87) Refer to the above table. Suppose the price of a hamburger is \$2, the price of a movie is \$5, and the income of the consumer is \$29. How many hamburgers and movies will this consumer buy to be at an optimum?

A) 1 hamburger and 5 movies.
 B) 6 hamburgers and 3 movies.
 C) 4 hamburgers and 4 movies.
 D) 2 hamburgers and 5 movies.

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

- 88) Refer to the above table. Suppose the price of a hamburger is \$2, the price of a movie is \$5, and the income of the consumer is \$29. What will the consumer's total utility equal at an optimum?
- A) 70 B) 1025 C) 1060 D) 1118

Answer: C

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

- 89) Refer to the above table. The price of a hamburger is \$2, the price of a movie is \$5, and the consumer's income is \$29. What is the marginal utility per last dollar spent on movies equal to if the consumer is at an optimum?
- A) 50 B) 40 C) 20 D) 10

Answer: D

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

Quantity of Good X/Wk	Marginal Utility	Quantity of Good Y/Wk	Marginal Utility
1	1200	1	1700
2	1000	2	1400
3	800	3	1100
4	600	4	800
5	400	5	500
6	100	6	200

- 90) Refer to the above table. If the price of Good X is \$2, the price of Good Y is \$1, and the consumer has \$9, the rational consumer will purchase
- A) 6 units of Good X and 0 units of Good Y.
 B) 6 units of Good X and 3 units of Good Y.
 C) 2 units of Good X and 5 units of Good Y.
 D) 5 units of Good X and 6 units of Good Y.

Answer: C

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

91) Refer to the above table. If the price of Good X is \$2, the price of Good Y is \$2, and the consumer has \$14, the rational consumer will purchase

- A) 3 units of Good X and 4 units of Good Y.
- B) 6 units of Good X and 6 units of Good Y.
- C) 6 units of Good X and 0 units of Good Y.
- D) 3 units of Good X and 3 units of Good Y.

Answer: A

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

92) Refer to the above table. If the price of Good X is \$1, the price of Good Y is \$2, and the consumer has \$13, the rational consumer will purchase

- A) 3 units of Good X and 4 units of Good Y.
- B) 1 units of Good X and 1 units of Good Y.
- C) 6 units of Good X and 0 units of Good Y.
- D) 5 units of Good X and 4 units of Good Y.

Answer: D

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Revised

93) What is consumer optimum according to utility theory?

Answer: Consumer optimum is the set of goods and services that maximizes the level of satisfaction for a consumer, given the consumer's income and the prices of the goods and services. At consumer optimum, the marginal utility per dollar spent is equal across all goods and services purchased.

Diff: 1

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

94) Explain how a consumer maximizes utility.

Answer: To maximize utility, the consumer allocates income among goods and services such that the last dollar spent on each good purchased yields the same amount of marginal utility.

This occurs if

$$(MU_a/P_a) = (MU_b/P_b) = \dots = (MU_z/P_z).$$

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 95) Suppose that an individual consumes only two goods. What will happen to the individual if her last dollar spent on one good yields more marginal utility than that from another good?

Answer: The individual will consume more of the good that yields more marginal utility. However, because of the principle of diminishing utility, the marginal utility declines as she consumes more of the good with higher marginal utility. She will continue to consume the good with higher marginal utility until an optimum point at which the last dollar spent on each good purchased yields the same amount of marginal utility.

Diff: 2

Topic: 20.4 Optimizing Consumption Choices

AACSB: Analytic skills

Question Status: Previous Edition

- 96) Suppose a family purchases 10,000 gallons of water a year at 20 cents a gallon and one diamond ring at a price of \$1000. Can we conclude that the diamond ring provides more utility to the family than water? Explain.

Answer: No. In fact, the water provides more total utility than the diamond. We know that the $(\text{MU of the last gallon of water})/(\$0.20) = (\text{MU of the ring})/(\$1000)$. This implies the MU of the ring is 5000 times more than the MU of the last gallon of water. Further, the total utility of the ring equals marginal utility since only one ring was purchased. Given the law of diminishing marginal utility, the total utility must be more than 10,000 times greater than the marginal utility of the 10,000th gallon, so the total utility for the water must be greater than the total utility of the diamond.

Diff: 3

Topic: 20.4 Optimizing Consumption Choices

AACSB: Reflective thinking skills

Question Status: Revised

20.5 How a Price Change Affects Consumer Optimum

- 1) Suppose a consumer is currently buying 5 goods so that utility is maximized. The price of one of the goods falls while the prices of the other 4 goods do not change. The consumer should
- A) buy less of all goods being consumed to get to the optimal position.
 - B) buy more of all of the goods but the one that experiences the decline in price, to get to the optimal position.
 - C) buy more of all goods being consumed to get to the optimal position.
 - D) buy more of the good that has experienced the fall in price to get to the optimal position.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Revised

- 2) If Frank has been consuming 5 hamburgers per week at a consumer optimum, and the price of hamburgers falls, how will Frank respond?

A) He will save more income.
 B) He will buy more of everything.
 C) He will buy more burgers.
 D) He will buy more of everything except burgers.

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Revised

- 3) To remain in consumer optimum

A) a price increase requires an increase in consumption.
 B) a price decrease requires an increase in consumption.
 C) a price decrease requires a decrease in consumption.
 D) prices must remain static.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The change in people's purchasing power that occurs when the price of a good they purchase changes, assuming all else is held constant is known as

A) the substitution effect.
 B) the real income effect.
 C) the elasticity effect.
 D) the multiplier effect.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 5) Suppose that a consumer is at an optimum consuming X and Y. If the price of X falls, then to get to a new equilibrium the consumer must

A) purchase less X and more Y.
 B) purchase less Y and less X.
 C) purchase more X.
 D) purchase more Y.

Answer: C

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose a consumer is at an optimum. What happens when the price of one good she has been consuming increases?
- A) The value of the marginal utility of the last unit consumed decreases.
 - B) The value of the marginal utility of the last unit consumed increases.
 - C) The marginal utility per dollar spent on the last unit consumed of that good increases by the same proportion as the price increases.
 - D) The marginal utility per dollar spent on the last unit consumed of that good is now smaller than the marginal utility per dollar spent on other goods the person consumes.

Answer: D

Diff: 3

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 7) A consumer is at an optimum when the price of one good she has been consuming decreases. As a result
- A) the value of the marginal utility of the last unit consumed has increased.
 - B) the value of the marginal utility of the last unit consumed has decreased.
 - C) the price of the other good must decrease too.
 - D) the marginal utility of the last dollar spent on this good is now greater than the marginal utility of the last dollar spent on other goods.

Answer: D

Diff: 3

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 8) A consumer has been buying 4 magazines and 3 books a month for many months. The price of magazines then decreases, which directly causes the marginal utility per dollar spent on
- A) magazines to increase, thereby inducing the consumer to purchase fewer magazines and more books.
 - B) magazines to increase, thereby inducing the consumer to purchase more magazines and fewer books.
 - C) books to increase, thereby inducing the consumer to purchase fewer magazines and more books.
 - D) books to decrease, thereby inducing the consumer to purchase fewer magazines and more books.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The real-income effect shows that
- A) a decrease in the price of a good increases the purchasing power of the consumer's income.
 - B) if the consumer's income rises, he or she buys more of inferior goods and less of normal goods.
 - C) if a good is inferior, a decrease in the purchasing power of income results in less of the good being consumed.
 - D) when the price of a good rises, consumers are able to buy more of other goods because of the increase in the purchasing power of income.

Answer: A

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 10) The real-income and the substitution effects reinforce each other by
- A) increasing the consumption of good y when the price of x falls.
 - B) increasing the consumption of both goods x and y when income increases.
 - C) decreasing the consumption of good x when the price of good y falls.
 - D) decreasing the consumption of good x when the price of good x increases.

Answer: D

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The real-income effect is typically small because
- A) the change in price of one particular item has little effect on total purchasing power.
 - B) income has no relation to consumption.
 - C) price changes tend to balance out over time.
 - D) real-incomes are always rising.

Answer: A

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The real-income effect of a price change is most significant when
- A) the substitution effect is insignificant.
 - B) the substitution effect is significant too.
 - C) the good under consideration constitutes a major portion of the consumer's budget.
 - D) the marginal utility per dollar spent on the last unit is high.

Answer: C

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

13) The substitution effect shows that

- A) if the price of a good increases, consumers buy more of that good and less of all others.
- B) if the price of a good falls relative to all other goods, consumers buy less of that good and more of all others.
- C) if the price of a good falls, consumers buy less of all goods.
- D) if the price of a good rises, consumers buy less of that good and more of others.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

14) The substitution effect argues that a consumer

- A) will always use the additional purchasing power from a price decrease to purchase more of both goods.
- B) will not purchase more of a good when its price falls.
- C) will purchase more of a good that has become relatively cheaper, and less of a good that has become relatively more expensive.
- D) will purchase less of both goods if his or her real income increases.

Answer: C

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

15) When you purchase the lower-priced store brand bread instead of the more expensive name brand, you are experiencing

- A) the substitution effect.
- B) the income effect.
- C) a fall in total utility.
- D) diminishing marginal product.

Answer: A

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

16) The fact that consumers will purchase more of a good that has become relatively cheaper

- A) is called the nominal income effect.
- B) is called the substitution effect.
- C) leads to an upward sloping demand curve.
- D) leads to negative marginal utility.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

17) Other things being equal, when the money price of a good increases, its relative price

- A) stays the same.
- B) increases.
- C) decreases.
- D) falls to zero.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The price of a large pepperoni pizza used to be \$14, but this week the price rose to \$18. With a budget of just \$30, you can't afford as many pizzas at the higher price. This change in consumer behavior reflects the
- A) real income effect.
B) substitution effect.
C) nominal income effect.
D) concept of diminishing marginal utility.

Answer: A

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 19) If a consumer is initially at an optimum, and then the price of Y falls, then
- A) $MU_X/P_X < MU_Y/P_Y$. B) $MU_X/P_X > MU_Y/P_Y$.
C) $MU_X/P_X = MU_Y/P_Y$. D) $MU_X/MU_Y > P_Y/P_X$.

Answer: A

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 20) If a consumer is initially at an optimum, and then the price of Y increases, then
- A) $MU_X/P_X < MU_Y/P_Y$.
B) $MU_X/P_X > MU_Y/P_Y$.
C) $MU_X/P_X = MU_Y/P_Y$.
D) $MU_X/MU_Y > P_Y/P_X$.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 21) If a consumer is at an optimum, consuming X and Y, and the price of X increases, then to get to a new equilibrium the consumer must
- A) purchase less X.
B) purchase less Y.
C) purchase more X.
D) purchase more of both X and Y.

Answer: A

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 22) If a consumer is at an optimum, consuming X and Y, and the price of X decreases, then to get to a new equilibrium the consumer must
- A) purchase less X.
B) purchase less of both X and Y.
C) purchase more X.
D) purchase more of both X and Y.

Answer: C

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 23) A higher price for a good implies that
- A) the marginal utility of the good has declined.
 - B) the total value of the good to the consumer has increased.
 - C) the sacrifice of utility of another good has increased.
 - D) the marginal utility of another good has decreased.

Answer: C

Diff: 3

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Initially, a consumer is at an optimum. Then the price of X decreases. Consequently,
- A) $MU_X/P_X < MU_Y/P_Y$.
 - B) $MU_X/P_X > MU_Y/P_Y$.
 - C) $MU_X/P_X = MU_Y/P_Y$.
 - D) $MU_X > MU_Y$.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Initially, a consumer is at an optimum. Then the price of X increases. Consequently,
- A) $MU_X/P_X < MU_Y/P_Y$.
 - B) $MU_X/P_X > MU_Y/P_Y$.
 - C) $MU_X/P_X = MU_Y/P_Y$.
 - D) $MU_X > MU_Y$.

Answer: A

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 26) A consumer has been buying 5 magazines and 2 books a month for many months. The price of books then increases. To attain a new optimum, the consumer will
- A) buy more magazines because they are now relatively more valuable than they were before, while continuing to buy the same number of books.
 - B) buy more books because they are now relatively more valuable than they were before.
 - C) buy the same number of books and magazines as before because they provide different types of utility.
 - D) buy fewer books than before because they are relatively more expensive than they were before.

Answer: D

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Dave is undecided about whether to eat at a restaurant or to order pizza at home. He then obtains a coupon for 20 percent off at the restaurant and decides to go there to eat. This is an example of
- A) someone using criteria other than price to make a consumption decision.
 - B) a lower price leading a consumer to substitute more of the less expensive good for the relatively more expensive good.
 - C) a lower price leading a consumer to buy more of a good because of the income effect.
 - D) a consumer making a decision irrationally.

Answer: B

Diff: 3

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 28) The substitution effect refers to
- A) the law of diminishing marginal utility.
 - B) the want-satisfying power of a good or service.
 - C) substitution of less expensive commodities for more expensive commodities.
 - D) the change in purchasing power when the price of a good changes.

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 29) The tendency of people to substitute cheaper commodities for more expensive commodities is the
- | | |
|---|-------------------------|
| A) law of diminishing marginal utility. | B) real-income effect. |
| C) substitution effect. | D) price income effect. |

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 30) The real-income effect refers to
- A) the law of diminishing marginal utility.
 - B) the want-satisfying power of a good or service.
 - C) substitution of less expensive commodities for more expensive commodities.
 - D) the change in purchasing power when the price of a good changes.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 31) The change in people's purchasing power that occurs when the price of one good that they purchase changes is the

A) law of diminishing marginal utility. B) real-income effect.
C) substitution effect. D) price income effect.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Revised

- 32) The price of a good that Joe is currently consuming has increased.

A) Joe has experienced a decrease in purchasing power.
B) Joe will experience a shift in the demand curve of the good whose price has increased.
C) Joe will stop consuming this good.
D) Joe will experience increasing marginal utility.

Answer: A

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 33) When the price of a normal good decreases, people increase their consumption of the good. The reason is

A) the law of diminishing marginal utility. B) the substitution and income effects.
C) the substitution effect only. D) the income effect only.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 34) The real-income effect is likely to be greater when

A) the substitution effect is not very large.
B) the marginal utility of the last unit is high.
C) the marginal utility per dollar spent on the last unit is high.
D) the good is an expensive good.

Answer: D

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 35) A decrease in the price of a good causes

A) the utility of the good to decrease.
B) the marginal utility of the good to decrease.
C) purchasing power of a person's income to increase.
D) the nominal wealth of a person to increase.

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 36) For most goods, the real-income effect of a price change is
- A) small because the good accounts for a small part of the consumer's budget.
 - B) small because the decision to buy a good depends only on the income of a consumer.
 - C) large because the price of the good is in terms of the currency and the income of the person is also in terms of the currency.
 - D) zero because the real-income effect only applies to durable goods.

Answer: A

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 37) If your money income stays the same but the price of one good that you are buying goes up, your effective purchasing power
- A) rises.
 - B) does not change.
 - C) cannot be determined.
 - D) falls.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Your annual review is given to you at your place of employment, and you get a raise of 3 percent for the next year. On the subway home though, you read an article stating the price of homes in the area you are looking to buy will increase by 6 percent during the coming year. You determine from the article that if you buy in your favorite neighborhood
- A) your purchasing power declines.
 - B) consumer optimum is reached.
 - C) your real income actually increases.
 - D) quantity demanded will increase.

Answer: A

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 39) When the price of DVDs falls relative to movie and restaurant prices, and consumers buy more of the DVDs, economists call this
- A) indifference.
 - B) satisfaction.
 - C) marginalization.
 - D) substitution.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 40) Which of the following statements is FALSE regarding consumer choice?
- A) Each change in price has a substitution effect and a real income effect.
 - B) When price falls, the consumer chooses in favor of the cheaper good.
 - C) Diminishing marginal utility is one reason for a downward sloping demand curve.
 - D) Purchasing power has an inverse relationship with the rise in income.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 41) If a college student stays home and watches a rented DVD for \$5 rather than going out to a \$10 movie, this is an example of the
- A) utility effect.
 - B) value effect.
 - C) substitution effect.
 - D) income effect.

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 42) When consumers shift away from relatively higher price goods and services in favor of those that are less expensive, this is known as the
- A) principle of utility.
 - B) principle of substitution.
 - C) principle of supply.
 - D) principle of increasing opportunity costs.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 43) If you regularly spend \$100 a month on gasoline and the price of gasoline doubles, your purchasing power has
- A) increased.
 - B) remained constant.
 - C) became stable.
 - D) decreased.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 44) With a given level of money income, when the price of a product that a consumer buys declines, the purchasing power of your money income
- A) decreases.
 - B) increases.
 - C) is unchanged.
 - D) can increase or decreases depending on the goods being consumed.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 45) When the price of a good that a person is consuming falls, other things being constant, there is
- A) a decline in real income.
 - B) a decline in purchasing power.
 - C) a real income effect.
 - D) no change in purchasing power.

Answer: C

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 46) If the price of coffee rises relative to all other prices, consumers are likely to
- A) buy more coffee.
 - B) buy more tea.
 - C) buy less coffee and less tea.
 - D) buy less tea.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 47) If the price of a slice of pizza falls from \$2 to \$1, a pizza-loving consumer will
- A) see her purchasing power fall.
 - B) see her purchasing power rise.
 - C) substitute more Chinese food for pizza.
 - D) spend more on soft drinks and less on pizza.

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 48) If the price of a pizza slice falls, Tom can
- A) buy more pizza with his paycheck.
 - B) buy more soft drinks with his paycheck.
 - C) no longer afford pizza on his paycheck.
 - D) Either A or B is possible.

Answer: D

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 49) The idea that people will substitute cheaper commodities for more expensive commodities is called

A) the marginal effect. B) the real-income effect.
C) the substitution effect. D) the utility effect.

Answer: C

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

- 50) When an individual's purchasing power changes due to a change in the price of a good or service, this is referred to as

A) marginal effect. B) real-income effect.
C) substitution effect. D) utility effect.

Answer: B

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

Pizza	Marginal Utility
1st Slice	7 utils
2nd Slice	6 utils
3rd Slice	4 utils
4th Slice	3 utils

- 51) Suppose the price of pizza is \$2 and the consumer optimum is reached when $MU/P = 3$. Tom's preferences for pizza are shown in the above table. How many slices will Tom buy?

A) 1 slice B) 2 slices C) 3 slices D) 4 slices

Answer: B

Diff: 1

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Suppose the price of pizza falls to \$1 per slice. Assuming that Tom's preferences continue to be those shown in the above table, and assuming that $MU/P = 3$ is still the point at which his consumer optimum is reached, how many slices will Tom now buy?

A) 1 slice B) 2 slices C) 3 slices D) 4 slices

Answer: D

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Suppose Lois usually buys two cups of coffee for two dollars each and one scone for two dollars each. If the price of scones falls to one dollar each and she now buys two cups of coffee and two scones, this illustrates the

A) substitution effect.

B) marginal rate of substitution.

C) total utility effect.

D) real-income effect.

Answer: D

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Suppose a consumer is at an optimum, consuming 6 hamburgers a week at a price of \$1.50 each and 10 donuts a week at 50 cents a donut. If the price of a hamburger increases to \$2.00, what will the consumer do to arrive at a new equilibrium? Why?

Answer: At the equilibrium, the MU of the last dollar spent on both goods is equal. After the price of a hamburger increases, the MU of the last dollar spent on hamburger is less than the MU of the last dollar spent on donuts. Either the MU of hamburger must increase or the MU of a donut must decrease. The latter cannot happen because the consumer cannot afford to buy more donuts. Therefore, the consumer must buy fewer hamburgers. Given the principle of diminishing marginal utility, MU will increase and a new equilibrium can be established.

Diff: 3

Topic: 20.5 How a Price Change Affects Consumer Optimum

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Discuss the substitution and real-income effects of a price decrease.

Answer: The substitution effect of a price decrease is for people to substitute cheaper goods for more expensive goods. So, a consumer will purchase more of a good whose price fell and less of a substitute good. A price decrease raises the real income of the consumer, so the consumer will want to buy more of all goods including the good whose price fell. The more important effect is the substitution effect since the change in real income from a price change of a single good is usually very small.

Diff: 2

Topic: 20.5 How a Price Change Affects Consumer Optimum

Question Status: Previous Edition

20.6 The Demand Curve Revisited

- 1) The negative relationship between the quantity demanded of a commodity and its price can be explained by the principle of

A) increasing total utility.

B) contingent valuation.

C) indifference analysis.

D) diminishing marginal utility.

Answer: D

Diff: 1

Topic: 20.6 The Demand Curve Revisited

Question Status: Revised

- 2) According to the substitution effect, if the price of a product goes down
- A) the consumer will buy more of the good at the lower price than at a higher price, creating a downward sloping demand curve.
 - B) the consumer will buy more of the good at a lower price than at a higher price, creating a horizontal demand curve.
 - C) the consumer will not change the level of purchases of the good when the price changes, making the demand curve a vertical line.
 - D) the real income of the consumer will increase, causing the consumer to want to buy more of the good, creating a downward sloping demand curve.

Answer: A

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Revised

- 3) The inverse relationship between quantity demanded and price of a good or service can be explained, in part, by
- A) a shift in the demand curve.
 - B) diminishing marginal utility only.
 - C) diminishing marginal utility and the rule of equal marginal utilities per dollar.
 - D) the real income effect.

Answer: C

Diff: 2

Topic: 20.6 The Demand Curve Revisited

Question Status: Revised

- 4) Which of the following is FALSE?
- A) A consumer is maximizing total utility when he or she gets the same amount of marginal utility from the last dollar spent on each good purchased.
 - B) As additional units of a good or service are consumed, marginal utility diminishes.
 - C) Utility is want-satisfying power.
 - D) Assuming that the law of diminishing marginal utility holds, the demand curve must be upward sloping.

Answer: D

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Revised

- 5) Given the utility-optimizing rule and the presence of diminishing marginal utility for a good,
- A) the demand curve for the good will be vertical.
 - B) there will not be a well-defined demand curve.
 - C) there will not be a substitution effect.
 - D) the demand curve for the good will be negatively sloped.

Answer: D

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The law of demand is derived under the assumption of
- A) constant prices.
 - B) constant real incomes.
 - C) constant consumer tastes and preferences.
 - D) constant marginal utility.

Answer: C

Diff: 1

Topic: 20.6 The Demand Curve Revisited

Question Status: Previous Edition

- 7) The total utility of water is
- A) lower than the total and marginal utility of diamonds.
 - B) lower than the total utility of diamonds, but the marginal utility is higher.
 - C) higher than the total utility of diamonds, but the marginal utility of diamonds is higher.
 - D) the same as the total utility of diamonds, but the marginal utilities are the same.

Answer: C

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The diamond–water paradox illustrates the idea that _____ determines what consumers are willing to pay for a particular good.
- A) total utility
 - B) the real-income effect
 - C) marginal utility
 - D) the substitution effect

Answer: C

Diff: 2

Topic: 20.6 The Demand Curve Revisited

Question Status: Previous Edition

Quantity of Hamburgers/Wk	Total Utility	Quantity of Movies/Wk	Total Utility
1	40	1	400
2	60	2	700
3	76	3	850
4	86	4	950
5	91	5	1000
6	93	6	1025

- 9) Refer to the above table. Suppose the price of a movie is \$5 and the income of the consumer is \$29. What are the quantities demanded of hamburger at prices of \$2 and \$1 respectively?
- A) 0; 1
 - B) 2; 4
 - C) 1; 2
 - D) 3; 5

Answer: B

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Refer to the above table. The price of a hamburger is \$2, the price of a movie is \$10, and the consumer has \$44. What is the change in quantity demanded of hamburgers if the price of a hamburger decreases to \$1?

A) Quantity demanded increases by 1 hamburger.
B) Quantity demanded increases by 2 hamburgers.
C) Quantity demanded increases by 3 hamburgers.
D) Quantity demanded increases by 4 hamburgers.

Answer: B

Diff: 3

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 11) An individual's demand curve slopes down because

A) marginal utility falls as price falls.
B) the value of the marginal utility falls as the price falls.
C) of the rule that the marginal utility of the last unit must equal the price.
D) of the law of diminishing marginal utility and the rule of equal marginal utilities per dollar.

Answer: D

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 12) A consumer was at an optimum. She then discovers that the marginal utility per dollar spent on food is more than the marginal utility per dollar spent on gasoline. She knows then that

A) the price of gasoline must have decreased.
B) the price of food must have increased.
C) the price of gasoline must have increased or the price of food must have decreased.
D) the price of gasoline must have decreased or the price of food must have increased.

Answer: C

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 13) To derive the law of demand, we assume that

A) prices are constant.
B) real prices are constant.
C) marginal utility is constant.
D) tastes are constant.

Answer: D

Diff: 1

Topic: 20.6 The Demand Curve Revisited

Question Status: Previous Edition

- 14) The diamond–water paradox is an example that shows that
- A) necessities like water should have a higher price.
 - B) marginal utility rather than total utility determines what people are willing to pay for a good.
 - C) there are exceptions to the law of diminishing marginal utility.
 - D) marginal utility can initially increase and then decrease.

Answer: B

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Why are diamonds more expensive than water?
- A) because the last glass of water has higher marginal utility than the last diamond
 - B) because the last diamond has higher marginal utility than the last glass of water
 - C) because you get more total utility from diamonds
 - D) because water is a necessity

Answer: B

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 16) The diamond–water paradox was solved by knowing that
- A) the total utility of water is greater than the total utility of diamonds.
 - B) the marginal utility of water is greater than the marginal utility of diamonds.
 - C) the price of water and diamonds is determined by total utility received, not marginal utility.
 - D) the price of water and diamonds is determined by marginal utility, not total utility.

Answer: D

Diff: 2

Topic: 20.6 The Demand Curve Revisited

Question Status: Previous Edition

- 17) The reason that diamonds cost more than water is
- A) the marginal utility of each diamond a consumer purchases is quite high due to the small amount of diamonds that most consumers purchase.
 - B) most consumers consume little water.
 - C) diamonds are more beautiful than water.
 - D) water is a necessity.

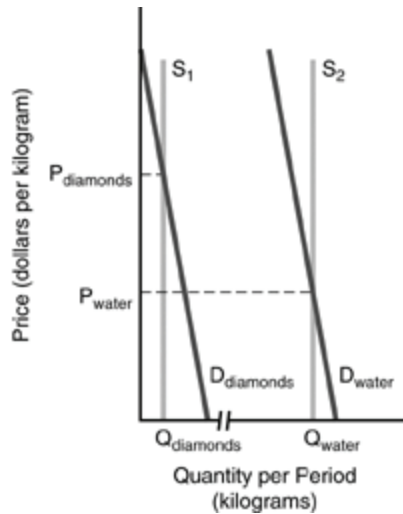
Answer: A

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition



18) Refer to the above figure. All of the following are true concerning the diamond–water paradox EXCEPT

- A) the demand for water exceeds the demand for diamonds.
- B) the price of diamonds exceeds the price of water.
- C) since the price of diamonds is high, demand is great.
- D) marginal utility of diamond consumption is relatively high.

Answer: C

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following statements is FALSE, with respect to what economist Adam Smith called the diamond–water paradox?

- A) The total utility of water greatly exceeds the total utility derived from diamonds.
- B) Total utility does not determine what people are willing to pay for a unit of a particular commodity; marginal utility does.
- C) The demand for water is much smaller than the demand for diamonds.
- D) There are relatively few diamonds, so the marginal utility of the last diamond consumed is relatively high.

Answer: C

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Given the price of a good or service, what determines how much a person is willing to pay for that good or service?

A) marginal utility
 B) total utility
 C) the substitution effect
 D) average utility

Answer: A

Diff: 1

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The average demand curve slopes downward due to all of the following EXCEPT

A) the law of increasing relative costs.
 B) the laws of diminishing marginal utility.
 C) the real-income effect.
 D) the principle of substitution.

Answer: A

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 22) If you could pay for a product according to the marginal utility that you gain from additional consumption, then as you consume more of a product the price you pay would

A) remain the same.
 B) increase.
 C) be deferred.
 D) decline.

Answer: D

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Why does a price increase of a product result in a decrease in the quantity demanded of that product, according to utility analysis?

Answer: There are two effects associated with a price increase. The first is the substitution effect, which is the tendency of consumers to substitute cheaper goods for the more expensive good. The second effect is the real income effect, which is the lower overall purchasing power of the consumer as a result of the price increase. As a result of the two effects, a price increase results in a smaller quantity demanded.

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Revised

- 24) Why is water much cheaper than diamonds even though water is essential to human lives while diamonds are not?

Answer: This is called the diamond–water paradox. The total utility of water greatly exceeds the total utility of diamonds, but the marginal utility of diamonds far exceeds the marginal utility of water because of the much more limited supply of diamonds than water. The relative prices are determined by marginal utilities, not total utilities.

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Explain how utility analysis can be used to derive a downward sloping demand curve.

Answer: Given the law of diminishing marginal utility and the equal marginal utilities per dollar rule, there is a negative relationship between price and quantity demanded of a good. A fall in price means people want to buy more of the good in order to get the marginal utility per dollar of this good in line with the other goods. The marginal utility must fall to get the marginal utility per dollar of this good in line with the other goods, and the law of diminishing marginal utility implies that more of the good must be purchased to get marginal utility to decrease.

Diff: 3

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Use the law of diminishing marginal utility to explain the diamond–water paradox.

Answer: The diamond–water paradox refers to the fact that diamonds are less useful to humans than water but their prices are much higher. However, the price of a good is determined not based on its total utility but its marginal utility. Because of the limited supply of diamonds, the marginal utility of diamonds is much higher and so are the prices of diamonds.

Diff: 2

Topic: 20.6 The Demand Curve Revisited

AACSB: Analytic skills

Question Status: Previous Edition

20.7 Behavioral Economics and Consumer Choice Theory

- 1) Observations of violations of consumer optimum predicted by consumer choice theory could provide support for

I. utility analysis

II. bounded rationality

III. behavioral economics

A) I only.

B) III only.

C) both I and II.

D) both II and III.

Answer: D

Diff: 2

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The fact that the price of diamonds is higher than the price of water
- A) cannot be explained by behavioral economics or consumer choice theory.
 - B) is an outcome of irrational behavior in consumer choice theory.
 - C) can be explained only by behavioral economics but not by consumer choice theory.
 - D) can be explained as the outcome of a consumer optimum in consumer choice theory.

Answer: D

Diff: 2

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Because the behavioral economics approach suggests many alternative behaviors that people might exhibit if they fail to behave *as if* they are rational, this approach
- A) often fails to provide clearly testable behavioral predictions.
 - B) reproduces the same predictions as utility analysis.
 - C) has an over reliance on the rationality assumption.
 - D) ignores the possibility of bounded rationality.

Answer: A

Diff: 1

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Observations of real-world situations that appear to violate a consumer optimum could be offered as evidence favoring
- A) utility analysis.
 - B) bounded rationality.
 - C) diminishing marginal utility.
 - D) zero marginal utility at a utility-maximizing point.

Answer: B

Diff: 1

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

Question Status: Previous Edition

- 5) One piece of evidence that possibly supports the bounded-rationality assumption of behavioral economics is that experiments appear to have shown that
- A) people make different decisions in calm situations than in situations in which emotions come into play.
 - B) people make the same decisions in calm situations than in situations in which emotions come into play.
 - C) total utility is maximized when marginal utility is equal to zero.
 - D) total utility is declining when marginal utility is negative.

Answer: A

Diff: 1

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Behavioral economics suggests that people face human limitations that prevent them from examining every possible choice available to them, with the implication that
- A) the consumer optimum implied by utility theory is an inappropriate approach to deriving demand curves.
 - B) the consumer optimum implied by utility theory is an appropriate approach to deriving demand curves.
 - C) marginal utility is always equal to zero.
 - D) marginal utility is always negative.

Answer: A

Diff: 2

Topic: 20.7 Behavioral Economics and Consumer Choice Theory

AACSB: Analytic skills

Question Status: Previous Edition

20.8 Appendix F: On Being Indifferent

- 1) An indifference curve provides the set of consumption alternatives that
- A) yield the same total amount of satisfaction.
 - B) maximize the utility of the consumer.
 - C) can be purchased for the same amount of money.
 - D) yield the same marginal utility for the last unit consumed of each good.

Answer: A

Diff: 1

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Previous Edition

- 2) An indifference curve shows
- A) the combinations of goods that a consumer does not like very much.
 - B) the combinations of goods that generate the same ratio of marginal utilities.
 - C) the set of consumption alternatives that yield the same amount of total utility.
 - D) the set of consumption alternatives that yield the same amount of marginal utility.

Answer: C

Diff: 1

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Previous Edition

- 3) A curve where every combination of the two goods being considered yields the same level of satisfaction is known as
- A) a marginal utility curve.
 - B) a total utility curve.
 - C) an indifference curve.
 - D) a budget constraint.

Answer: C

Diff: 1

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Previous Edition

4) Along an indifference curve

- A) every combination of goods the consumer can purchase with their income is given.
- B) the prices of goods will change.
- C) utility increases as you move to the right.
- D) every combination of the goods give the same level of satisfaction.

Answer: D

Diff: 1

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Previous Edition

5) Along an indifference curve,

- A) the marginal utility of all items is equal.
- B) the total satisfaction is the same.
- C) the prices of all goods are equal.
- D) the marginal utility/price ratios of all items are equal.

Answer: B

Diff: 1

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Revised

6) A curve that shows a set of consumption alternatives that give the same level of satisfaction is

- A) a substitution curve.
- B) a budget line.
- C) an indifference curve.
- D) an income curve.

Answer: C

Diff: 2

Topic: 20.8 Appendix F: On Being Indifferent

Question Status: Previous Edition

20.9 Appendix F: Properties of Indifference Curves

1) An indifference curve cannot be positively sloped because

- A) the law of diminishing marginal utility would be violated.
- B) the substitution effect would be violated.
- C) a point to the right of another point will represent a lower quantity of both goods and a reduction in utility.
- D) a point to the right of another point will represent a higher quantity of both goods and an increase in utility.

Answer: D

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Revised

2) An indifference curve between one dozen eggs and several dozens of eggs would be

- A) bowed in to the origin.
- B) bowed out from the origin.
- C) a downward sloping straight line.
- D) a straight line from the origin.

Answer: C

Diff: 2

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Reflective thinking skills

Question Status: Revised

- 3) If the marginal utility of each good is constant as consumption increases, the indifference curves are

A) horizontal. B) vertical.
C) straight lines. D) positively sloped.

Answer: C

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Revised

- 4) Which of the following is NOT true about indifference curves?

A) Indifference curves slope downward.
B) Indifference curves show equally preferred combinations of two goods.
C) Indifference curves are not straight lines because the marginal rate of substitution falls.
D) Indifference curves shift when prices change.

Answer: D

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Indifference curves

A) are vertical. B) are horizontal.
C) slope upward. D) slope downward.

Answer: D

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

Question Status: Previous Edition

- 6) Assume that good X and good Y each have diminishing marginal utility for a consumer. In this case,

A) an indifference curve linking the two goods will have a constant slope.
B) an indifference curve will be convex to the origin.
C) the demand curves for these goods will be positively sloped.
D) the demand curves for these goods will be horizontal.

Answer: B

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Which of the following is FALSE about indifference curves?

A) They are downward sloping. B) They are convex to the origin.
C) They intersect. D) They can shift.

Answer: C

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

Question Status: Previous Edition

- 8) The indifference curve between eggs and dozens of eggs would be
- A) bowed in to the origin.
 - B) bowed out from the origin.
 - C) a rectangular hyperbola.
 - D) a downward sloping straight line with a slope of -12 .

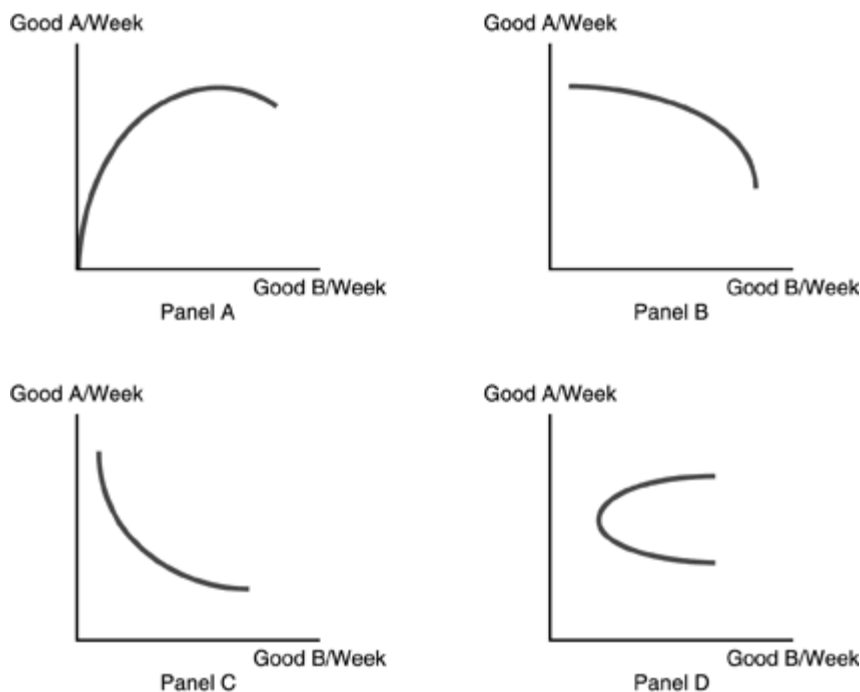
Answer: D

Diff: 2

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Reflective thinking skills

Question Status: Previous Edition



- 9) Refer to the above figures. Which panel best represents an indifference curve?
- A) Panel A.
 - B) Panel B.
 - C) Panel C.
 - D) Panel D.

Answer: C

Diff: 2

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Revised

10) An indifference curve

- A) must slope downward towards the right.
- B) is positively sloped.
- C) is upsloping and is concave to the origin.
- D) may be upsloping or downsloping, depending on whether the two products are complements or substitutes.

Answer: A

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

11) An indifference curve

- A) must be convex to the origin.
- B) must be concave to the origin.
- C) may be convex or concave to the origin.
- D) depends on the prices of the products and the consumer's income.

Answer: A

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

12) One characteristic of indifference curves is that

- A) they must intersect at the origin.
- B) they cannot intersect.
- C) they have a positive slope.
- D) they are straight lines.

Answer: B

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

Question Status: Previous Edition

13) What are the key properties of indifference curves?

Answer: Indifference curves have a downward slope and are convex to the origin. Also, the utility level is constant along an indifference curve.

Diff: 1

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

14) Why can't an indifference curve be a straight line?

Answer: A straight-line indifference curve indicates that the consumer will always be willing to give up the same number of one good to get one more unit of another good. This is not plausible, because if the consumer consumes many units of one good and none of another good, she should be willing to give up some units of the former good to consume some of the latter good. Therefore, indifference curves must be convex to the origin.

Diff: 2

Topic: 20.9 Appendix F: Properties of Indifference Curves

AACSB: Analytic skills

Question Status: Previous Edition

20.10 Appendix F: The Marginal Rate of Substitution

- 1) The marginal rate of substitution is the
- A) rate at which the consumer can exchange one good for the other.
 - B) change in the quantity of one good that just offsets a one-unit change in the consumption of another good such that the total satisfaction remains constant.
 - C) change in the quantity of one good that changes the utility received by one unit.
 - D) same thing as the marginal utility of a good.

Answer: B

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 2) The marginal rate of substitution is measured along
- A) the demand curve.
 - B) the total utility curve.
 - C) a given indifference curve.
 - D) a given budget line.

Answer: C

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The marginal rate of substitution is
- A) equal to unit changes in the quantities of both goods so that utility rises.
 - B) the slope of the budget line at all points.
 - C) the change in the quantity of one good that just offsets a unit change in another good, keeping utility constant.
 - D) found by adding additional units.

Answer: C

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 4) The marginal rate of substitution is
- A) the change in the quantity of one good that just offsets a one unit change in the consumption of another such that the total satisfaction remains constant.
 - B) the additional satisfaction from consuming an additional unit of a good or service.
 - C) positively related to the level of income.
 - D) the set of goods and services that are available to the consumer given his income.

Answer: A

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 5) The marginal rate of substitution is the
- A) rate at which the consumer will give up one good for an additional unit of the other good, such that total satisfaction is constant.
 - B) rate at which the consumer can trade one good for the other in the marketplace.
 - C) change in the quantity of one good that changes the utility received by one unit.
 - D) same thing as the marginal utility of a good.

Answer: A

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 6) Along a given indifference curve, a consumer reduces the quantity of one good in favor of more units of the other. In this situation
- A) the marginal rate of substitution falls.
 - B) the marginal utility of the first rises and the marginal utility of the second good falls.
 - C) Total utility rises.
 - D) Both A and B are correct.

Answer: D

Diff: 1

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

Combination	Good A	Good B
A	17	4
B	13	5
C	10	6
D	8	7

- 7) Refer to the above table. The table gives the various combinations of Good A and Good B along Jane's indifference curve. The marginal rate of substitution when Jane goes from combination A to combination B is
- A) 4:1.
 - B) 3:1.
 - C) 2:1.
 - D) 0.

Answer: A

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Refer to the above table. The table gives the various combinations of Good A and Good B along Jane's indifference curve. The marginal rate of substitution when Jane goes from combination B to combination C is
- A) 4:1.
 - B) 3:1.
 - C) 2:1.
 - D) 0.

Answer: B

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Refer to the above table. The table gives the various combinations of Good A and Good B along Jane's indifference curve. The marginal rate of substitution when Jane goes from combination C to combination D is

A) 4:1. B) 3:1. C) 2:1. D) 0.

Answer: C

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Along an indifference curve, as the consumer reduces the quantity of Good A in favor of more Good B the marginal rate of substitution of Good A for Good B will

A) fall. B) rise.
C) stay the same. D) fall and eventually turn negative.

Answer: A

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The change in the consumption of one good that just offsets a one-unit change in the consumption of another good is the

A) marginal utility. B) marginal rate of consumption.
C) marginal rate of substitution. D) marginal rate of satisfaction.

Answer: C

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 12) The marginal rate of substitution measures

A) the impact of product substitution.
B) the changes in marginal utility along the indifference curve.
C) the consumer's willingness to substitute one product for another so that total utility will remain unchanged.
D) the consumer's willingness to substitute one product for another so that marginal utility will remain unchanged.

Answer: C

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 13) Mathematically the marginal rate of substitution is

A) always a negative number.
B) always a positive number.
C) is equal to 1.
D) sometimes a positive and sometimes a negative number.

Answer: A

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

Question Status: Previous Edition

- 14) What is the marginal rate of substitution between two goods and how is it related to the indifference curve?

Answer: The marginal rate of substitution between two goods is the change in the quantity of one good that just offsets a one-unit change in the consumption of another good, so that total satisfaction between the two goods remains constant. The marginal rate of substitution is reflected by the slope of the indifference curve between the two goods.

Diff: 2

Topic: 20.10 Appendix F: The Marginal Rate of Substitution

AACSB: Analytic skills

Question Status: Previous Edition

20.11 Appendix F: The Indifference Map

- 1) In a map showing three indifference curves a consumer is most well off on
- A) the curve which is closest to the origin of the coordinate axes.
 - B) the curve which is most farther away from the coordinate axes.
 - C) The curve that is in the middle.
 - D) none of the above

Answer: B

Diff: 2

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Revised

- 2) An indifference map shows
- A) that money income is constant, but product prices may change.
 - B) that utility is at a maximum at the origin.
 - C) that curves closer to the origin represent higher levels of utility.
 - D) that curves further from the origin represent higher levels of utility.

Answer: D

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

Question Status: Revised

- 3) If an individual's total utility from consuming two goods increases, then there must be
- A) a downward rotation of the individual's indifference curve.
 - B) an inward rotation of the individual's indifference curve.
 - C) an outward shift of the individual's indifference curve.
 - D) an inward shift of the individual's indifference curve.

Answer: C

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: New

- 4) If an individual's total utility from consuming two goods decreases, then there must be
- A) a downward rotation of the individual's indifference curve.
 - B) an inward rotation of the individual's indifference curve.
 - C) an outward shift of the individual's indifference curve.
 - D) an inward shift of the individual's indifference curve.

Answer: D

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A set of indifference curves on a graph is called
- A) a difference map.
 - B) an indifference map.
 - C) a budget map.
 - D) a cluster.

Answer: B

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

Question Status: Previous Edition

- 6) Basket of goods A is on an indifference curve that lies further from the origin than basket B. From this we know that
- A) the prices of the goods in A are more than the prices of the goods in B.
 - B) the satisfaction from consuming A is more than the satisfaction from consuming B.
 - C) the marginal utility from consuming A is more than the marginal utility from consuming B.
 - D) all other consumers would also rank B above A.

Answer: B

Diff: 2

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Basket of goods A is on an indifference curve that lies closer to the origin than basket B. From this we know that
- A) the prices of the goods in A are less than the prices of the goods in B.
 - B) the satisfaction from consuming A is more than the satisfaction from consuming B.
 - C) the marginal utility from consuming A is less than the marginal utility from consuming B.
 - D) the satisfaction from consuming A is less than the satisfaction from consuming B.

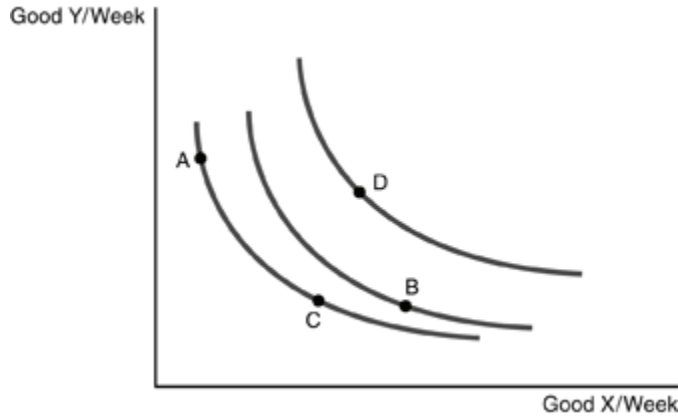
Answer: D

Diff: 2

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: New



- 8) Refer to the above figure. Which point represents the highest level of utility?
 A) Point A B) Point B C) Point C D) Point D

Answer: D

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Refer to the above figure. Which point(s) represents the lowest level of utility?
 A) Points A & C B) Point B C) Point C only D) Point D

Answer: A

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: New

- 10) Refer to the above figure. Which point represents the second highest level of utility?
 A) Point A B) Point B C) Point C D) Point D

Answer: B

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: New

- 11) Suppose that indifference curve I_1 lies to the left of indifference curve I_2 . We can conclude that
- A) some, but not all, points on indifference curve I_1 will correspond to higher utility than points along indifference curve I_2 .
 - B) some, but not all, points on indifference curve I_1 will correspond to lower utility than points along indifference curve I_2 .
 - C) all points along indifference curve I_1 will correspond to higher utility than points along indifference curve I_2 .
 - D) all points along indifference curve I_1 will correspond to lower utility than points along indifference curve I_2 .

Answer: D

Diff: 2

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Suppose that indifference curve I_1 lies to the right of indifference curve I_2 . We can conclude that
- A) some, but not all, points on indifference curve I_1 will correspond to higher utility than points along indifference curve I_2 .
 - B) some, but not all, points on indifference curve I_1 will correspond to lower utility than points along indifference curve I_2 .
 - C) all points along indifference curve I_1 will correspond to higher utility than points along indifference curve I_2 .
 - D) all points along indifference curve I_1 will correspond to lower utility than points along indifference curve I_2 .

Answer: C

Diff: 2

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: New

- 13) If an individual's utility from consuming two goods increases, then there must be
- A) a downward rotation of the individual's indifference curve.
 - B) an inward rotation of the individual's indifference curve.
 - C) an outward shift of the individual's indifference curve.
 - D) an inward shift of the individual's indifference curve.

Answer: C

Diff: 1

Topic: 20.11 Appendix F: The Indifference Map

AACSB: Analytic skills

Question Status: Previous Edition

20.12 Appendix F: The Budget Constraint

- 1) The slope of the budget line is
- A) zero since prices of the goods and income are assumed to be constant.
 - B) negative since to purchase more of one good means that some of the other good must be given up.
 - C) negative because of the marginal rate of substitution.
 - D) positive since prices and income are positive.

Answer: B

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 2) The possible combinations of goods that can be purchased with a specific income are called the
- A) budget constraint.
 - B) indifference map.
 - C) marginal rate of substitution.
 - D) income-consumption curve.

Answer: A

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Previous Edition

- 3) If incomes fall, then
- A) the budget constraint shifts inward.
 - B) the budget constraint shifts out.
 - C) there is no change in the budget constraint.
 - D) there is no relationship between the budget constraint and income.

Answer: A

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 4) The budget constraint shows that
- A) the consumer faces a trade-off in the consumption of goods.
 - B) the consumer can have as many goods as he wants.
 - C) as consumers spend more on one good, they spend more on others.
 - D) total income equals total spending on one good.

Answer: A

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

- 5) Which of the following shows the feasible combinations of two goods that a consumer could afford given her money income?
- A) The budget constraint
 - B) The indifference map
 - C) The income consumption curve
 - D) The price consumption curve

Answer: A

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

- 6) An increase in consumer income will
- A) shift the budget constraint and increase its slope.
 - B) reduce consumption of all normal goods.
 - C) pivot the budget constraint on the axis with the good that has the higher price.
 - D) shift out the budget constraint and increase the consumption of both goods, if they are normal goods.

Answer: D

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 7) If the quantity of hamburgers is measured along the horizontal axis and the quantity of movies is measured along the vertical axis, and the price of a hamburger is \$2.00 while the price of a movie is \$12, then the slope of the budget line is
- A) $-1/3$. B) -3.5 C) $-1/6$. D) -6 .

Answer: C

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 8) The slope of the budget constraint line is the
- A) income of consumers divided by the price of each good.
 - B) ratio of this year's income to last year's income.
 - C) rate of exchange between the two goods.
 - D) ratio of different levels of income.

Answer: C

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 9) Suppose that the quantity of good y is measured along the vertical axis and that the quantity of good x is measured along the horizontal axis. If the price of good x is \$5 and the price of good y is \$10 when income is \$200 per time period, the slope of the consumer's budget constraint will be
- A) -0.5 . B) -2 . C) -5 . D) -10 .

Answer: A

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 10) The budget constraint shows the
- A) combinations of goods that generate the same amount of total satisfaction.
 - B) possible combinations of goods that can be purchased with a specified income.
 - C) changes in consumption of goods that a consumer makes when his income increases.
 - D) amount of a good the consumer will buy at various prices.

Answer: B

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

- 11) All possible combinations of goods that can be purchased at fixed prices with a specific income is
- A) a marginal utility curve.
 - B) a total utility curve.
 - C) an indifference curve.
 - D) a budget constraint.

Answer: D

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

- 12) The consumption possibilities curve is the
- A) supply curve.
 - B) demand curve.
 - C) budget constraint.
 - D) indifference curve.

Answer: C

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

- 13) Let the quantity of hamburgers be measured along the vertical axis and the quantity of movies be measured along the horizontal axis. If the price of a hamburger is \$1.50 and the price of a movie is \$6, then the slope of the budget line is
- A) -6.
 - B) -4.
 - C) -3.
 - D) -0.25.

Answer: B

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 14) The quantity of good A is measured along the vertical axis, and the quantity of good B is measured along the horizontal axis. If the price of Good A falls
- A) the vertical intercept of the budget line moves along the vertical axis away from the origin.
 - B) the vertical intercept of the budget line moves along the vertical axis toward the origin.
 - C) the horizontal intercept (along Good B) of the budget line will increase.
 - D) none of the above

Answer: A

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 15) The quantity of good Y is measured along the vertical axis, and the quantity of good X is measured along the horizontal axis. If the prices of both good Y and good X rise, the budget line
- A) shifts outward to the right and the vertical and horizontal intercepts will both rise.
 - B) shifts inward to the left and both intercepts will decline.
 - C) rotates, rising along the vertical axis but falling along the horizontal axis.
 - D) none of the above

Answer: B

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 16) The quantities of Good M are plotted on the vertical axis while the quantities of Good N are plotted on the horizontal axis. The prices of both M and N fall. The intercepts of the budget line would
- A) decline along both axes.
 - B) rise on the vertical axis and also rise on the horizontal axis.
 - C) rise on the horizontal axis but stay unchanged on the vertical axis.
 - D) rise on the vertical axis but stay unchanged along the horizontal axis.

Answer: B

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 17) The quantity of good M is measured along the vertical axis, and the quantity of good N is measured along the horizontal axis. If the prices of both goods M and N declines by 50% each, then the budget line
- A) shifts inward to the left by 50%.
 - B) shifts outward to the right by 50%.
 - C) shifts outward to the right by 100%.
 - D) rotates clockwise by 180 degrees.

Answer: C

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

- 18) The budget line
- A) shifts to the left as income increases.
 - B) has a positive slope.
 - C) is a vertical line.
 - D) shows the combination of goods that can be purchased at fixed prices and with a given income.

Answer: D

Diff: 1

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

19) A budget constraint shows

- A) all of the combinations of sets of goods that yield the same level of satisfaction.
- B) all of the possible combinations of goods that can be purchased with a specific budget.
- C) all of the goods the consumer gets positive marginal utility from when the goods are consumed.
- D) all of the goods that a consumer substitutes for other goods when prices fall.

Answer: B

Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

Question Status: Revised

20) An increase in income will

- A) shift the budget constraint to the right.
- B) make the budget constraint steeper.
- C) make the budget constraint flatter.
- D) make the budget constraint more bowed.

Answer: A

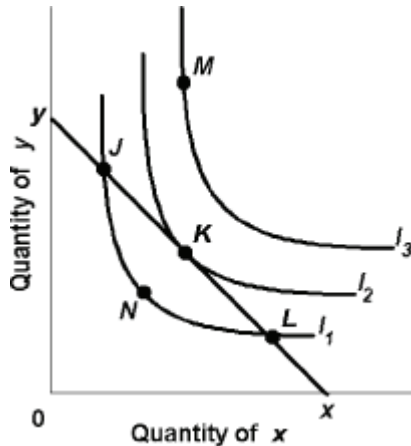
Diff: 2

Topic: 20.12 Appendix F: The Budget Constraint

AACSB: Analytic skills

Question Status: Revised

20.13 Appendix F: Consumer Optimum Revisited



1) Using the above figure, we can conclude that

- A) the consumer will purchase goods at combination M .
- B) the consumer is indifferent between J and M .
- C) K is the optimal combination of goods.
- D) L is preferred to K .

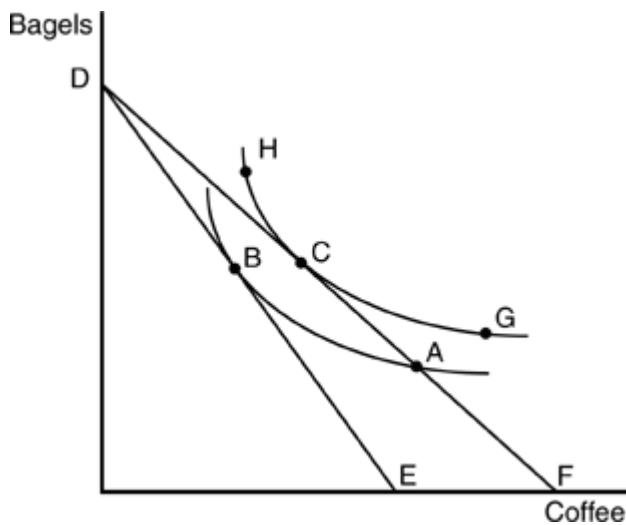
Answer: C

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Revised



- 2) In the above figure, if the budget line is the line DE, the consumer will maximize utility at point

A) A. B) B. C) C. D) G.

Answer: B

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In the above figure, if the budget line is the line DF, the consumer will maximize utility at point

A) A. B) B. C) C. D) G.

Answer: C

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: New

- 4) In the above figure, the budget line will change from line DE to line DF when

A) income rises. B) the price of bagels increases.
C) the price of coffee increases. D) the price of coffee decreases.

Answer: D

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In the above figure, if the budget line is originally line DE and the price of coffee decreases, the consumer will

A) drink less coffee and increase bagel consumption slightly.
 B) drink more coffee and increase bagel consumption slightly.
 C) drink more coffee and decrease bagel consumption slightly.
 D) leave consumption of both coffee and bagels unchanged.

Answer: B

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 6) In the above figure, point C is

A) preferred to points G, A, and B.
 B) preferred to points A and B.
 C) less preferred than point G.
 D) less preferred than point H.

Answer: B

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 7) In the above figure, budget line DF would swivel in to the left if

A) the price of bagels increased.
 B) the price of bagels decreased.
 C) the price of coffee increased.
 D) the price of coffee decreased.

Answer: C

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Using indifference curve analysis, an optimum is characterized by

A) the marginal rate of substitution of one good divided by its price equal to the marginal rate of substitution of the other good divided by its price.
 B) the marginal rate of substitution being equal to one.
 C) the marginal rate of substitution being equal to zero.
 D) the marginal rate of substitution being equal to the ratio of the prices of the two goods.

Answer: D

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 9) If an individual consumes only two goods and consumption of one good increases, then in order to keep the consumer on the same indifference curve, consumption of the other good must

A) increase.
 B) decrease.
 C) increase proportionately.
 D) become negative.

Answer: B

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 10) A consumer is maximizing utility when
- A) the slope of the budget constraint has reached -1 .
 - B) diminishing marginal utility has set in.
 - C) the slope of the budget constraint equals the marginal rate of substitution.
 - D) the consumer has spent all of his income.

Answer: C

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 11) A consumer will achieve the highest level of utility possible when she consumes
- A) at the point at which the highest indifference curve is tangent to the budget constraint.
 - B) at the point at which the indifference curve crosses the budget constraint.
 - C) at a point to the left of the budget constraint.
 - D) just below the point where the indifference curve crosses the budget constraint.

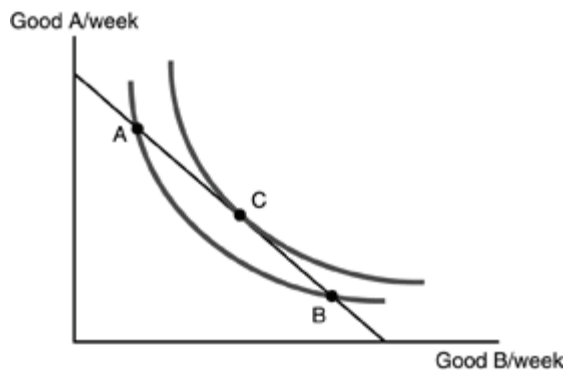
Answer: A

Diff: 1

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition



- 12) Refer to the above figure. Given the indifference map and budget constraint represented above the consumer will maximize utility when she consumes at
- A) point A.
 - B) point B.
 - C) point C.
 - D) either points A or B.

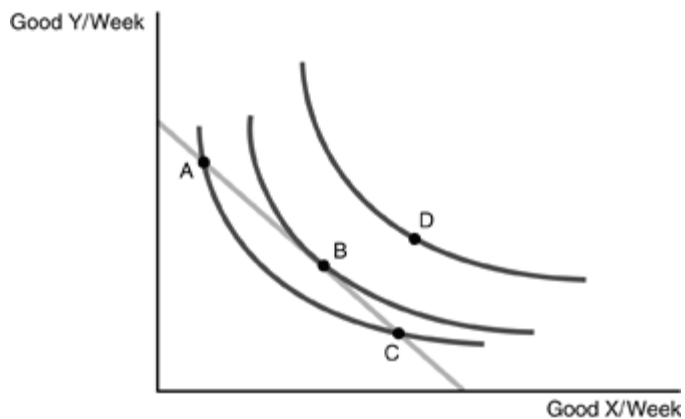
Answer: C

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition



- 13) Refer to the above figure. Given the indifference map and budget constraint represented above, what are all possible points at which that the individual can consume?

A) Points A and C only
 B) Point B only
 C) Point D only
 D) Points A, B and C only

Answer: D

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Refer to the above figure. Given the indifference map and budget constraint represented above, what would make all possible points attainable for the individual to consume?

A) An increase in the price of Good X.
 B) A decrease in income.
 C) An increase in the price of Good Y.
 D) A decrease in the price of Good X.

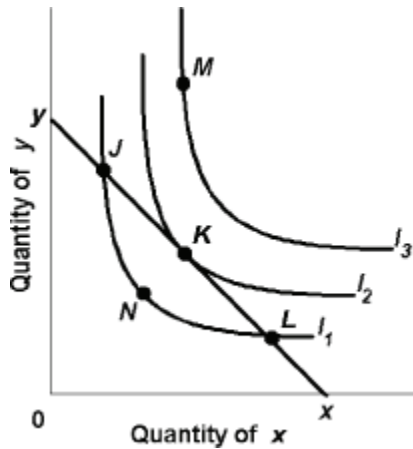
Answer: D

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: New



- 15) Use the above figure. The optimal position for the consumer is at
 A) J or L B) M C) K D) N

Answer: C

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Use the above figure. What would make all possible points attainable for the individual to consume?

- A) A decrease in the price of good y. B) An increase in the price of good y.
 C) An increase in the price of good x. D) A decrease in income.

Answer: A

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: New

- 17) Use the above figure. What does point N represent?
 A) A consumer maximizing her satisfaction.
 B) A consumer not maximizing her satisfaction.
 C) A consumer is spending more than her current income.
 D) A less satisfying point than compared to point J.

Answer: B

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: New

- 18) When indifference curve analysis is used, a consumer optimum occurs at the point at which
- A) the indifference curves intersect.
 - B) the indifference curve is tangent to the budget line.
 - C) total utility is maximum.
 - D) marginal utility/price ratio of all goods consumed is equal.

Answer: B

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 19) If a consumer chooses a combination of goods that are inside of her budget line, then
- A) the consumer is maximizing her satisfaction.
 - B) the consumer is spending more than her current income.
 - C) the consumer has a constant marginal rate of substitution for the two goods.
 - D) the consumer is not maximizing her satisfaction.

Answer: D

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Previous Edition

- 20) A consumer optimum is characterized by
- A) the marginal rate of substitution of one good divided by its price equal to the marginal rate of substitution of the other good divided by its price.
 - B) the marginal rate of substitution equal to unity.
 - C) the marginal rate of substitution equal to the ratio of the prices of the two goods.
 - D) the marginal rate of substitution divided by the price ratio of the two goods equal to the income of the consumer.

Answer: C

Diff: 2

Topic: 20.13 Appendix F: Consumer Optimum Revisited

AACSB: Analytic skills

Question Status: Revised

20.14 Appendix F: Deriving the Demand Curve

- 1) If the quantity of hamburgers is measured along the horizontal axis and the quantity of movies is measured along the vertical axis, an increase in the price of a movie would be shown by
- A) shifting the budget constraint in towards the origin.
 - B) shifting the budget constraint out.
 - C) rotating the budget constraint around the horizontal intercept such that the new vertical intercept is closer to the origin.
 - D) making the budget constraint steeper.

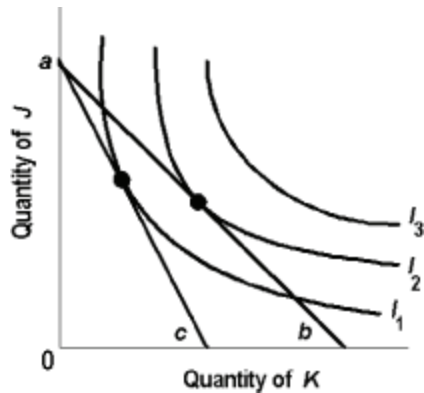
Answer: C

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised



- 2) Use the above figure. When the budget line rotates from "b" to "c"
- | | |
|--------------------------------------|--------------------------------------|
| A) the price of product J increases. | B) the price of product J decreases. |
| C) the price of product K increases. | D) the price of product K decreases. |

Answer: C

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 3) Use the above figure. When the budget line rotates from "b" to "c"
- | |
|---|
| A) fewer units of J and fewer units of K will be purchased. |
| B) more units of J and more units of K will be purchased. |
| C) fewer units of J and more units of K will be purchased. |
| D) more units of J and fewer units of K will be purchased. |

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: New

- 4) Use the above figure. When the budget line rotates from "c" to "b"
- | | |
|--------------------------------------|--------------------------------------|
| A) the price of product J increases. | B) the price of product J decreases. |
| C) the price of product K increases. | D) the price of product K decreases. |

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 5) Use the above figure. When the budget line rotates from "c" to "b"
- A) fewer units of J and fewer units of K will be purchased.
 - B) more units of J and more units of K will be purchased.
 - C) fewer units of J and more units of K will be purchased.
 - D) more units of J and fewer units of K will be purchased.

Answer: C

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 6) If price of a product falls
- A) the marginal utility of the product also falls.
 - B) the budget line rotates to the right.
 - C) the budget line rotates to the left.
 - D) the indifference curve will shift to the left.

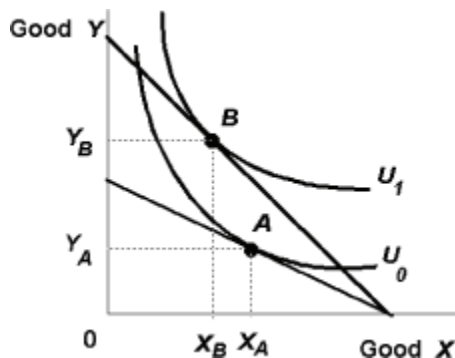
Answer: B

Diff: 1

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised



- 7) Use the above figure. Last week Joe consumed combination "B" of goods "X" and "Y." This week he purchased combination "A." The reason for this change is that the
- A) price of good X has increased.
 - B) price of good X has decreased.
 - C) price of good Y has decreased.
 - D) price of good Y has increased.

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 8) Use the above figure. Last week Joe consumed combination "A" of goods "X" and "Y." This week he purchased combination "B." The reason for this change is that the
- A) price of good X has increased.
 - B) price of good X has decreased.
 - C) price of good Y has decreased.
 - D) price of good Y has increased.

Answer: C

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 9) The slope of the budget line will change
- A) when the consumer's income increases.
 - B) when the consumer's taste changes.
 - C) when the total satisfaction changes.
 - D) when the price of one of the products changes.

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 10) Holding all other prices and money income constant, if the price of food rises, then the consumer will adjust her expenditures and
- A) reach an optimum on a higher indifference curve.
 - B) reach an optimum on a lower indifference curve.
 - C) reach an optimum on the same indifference curve.
 - D) her level of satisfaction may go up or down.

Answer: B

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 11) If the budget line rotates, then we know that
- A) income has changed.
 - B) there has been a change in the consumer's tastes.
 - C) the price of one of the goods had changed.
 - D) the consumer was not maximizing their utility.

Answer: C

Diff: 1

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised

- 12) If the price of a product increases, then
- A) the budget line rotates and the optimal quantity demanded, which corresponds to the higher price, decreases.
 - B) the budget line rotates and the optimal quantity demanded, which corresponds to the higher price, increases.
 - C) the budget line shifts outward and the optimal quantity demanded, which corresponds to the higher price, decreases.
 - D) the budget line shifts inward and the optimal quantity demanded, which corresponds to the higher price, increases.

Answer: A

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 13) To derive the demand curve from the indifference map,
- A) vary the price of one good while holding the price of the other good and income constant.
 - B) vary the prices of both goods while holding income constant.
 - C) vary the price of one good and income while holding the price of the other good constant.
 - D) vary income while holding the prices constant.

Answer: A

Diff: 1

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The information on a demand curve is also on a(n)
- A) indifference curve.
 - B) budget constraint.
 - C) income-consumption curve.
 - D) price-consumption curve.

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

Question Status: Previous Edition

- 15) Suppose that the quantity of hamburgers is measured along the vertical axis and that the quantity of popcorn is measured along the horizontal axis. The vertical intercept is 10 hamburgers, and the slope of the budget line is -2 . If the price of popcorn falls from \$1 to \$0.50, then we know that
- A) the vertical intercept shifts to 20 hamburgers.
 - B) the vertical intercept shifts to 5 hamburgers.
 - C) the horizontal intercept shifts to 10 bags of popcorn.
 - D) the horizontal intercept shifts to 20 bags of popcorn.

Answer: C

Diff: 3

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Suppose that the quantity of hamburgers is measured along the vertical axis and that the number of bags of popcorn is measured along the horizontal axis. The budget constraint has a vertical intercept of 10 hamburgers, and the slope of the line is -1 . If the price of popcorn doubles, we know that
- A) the consumer will buy half as many bags of popcorn as before.
 - B) the new equilibrium will have a marginal rate of substitution of -2 .
 - C) the new equilibrium will have a marginal rate of substitution of -0.5 .
 - D) the vertical axis of the budget line shifts to 5 hamburgers.

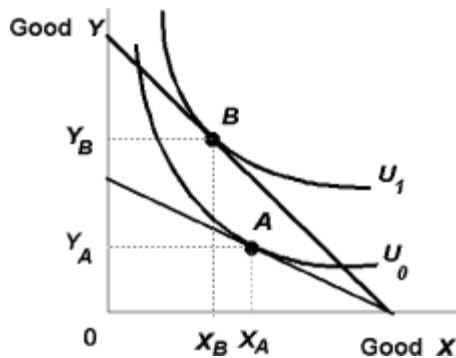
Answer: B

Diff: 3

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Revised



- 17) Use the above figure. The consumer's choice changes from Y_B to Y_A . Which of the following statements is true?
- A) This change in the consumer's choice results from a rise in the price of good Y.
 - B) This change in the consumer's choice results from a fall in the price of good X.
 - C) This change in the consumer's choice results from a rise in the price of good X.
 - D) This change in the consumer's choice results from an increase in the consumer's income.

Answer: A

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Use the above figure. The consumer's choice changes from Y_B to Y_A . Which of the following statements about good Y is true?
- A) price has increased and the quantity demanded has risen..
 - B) price has decreased and the quantity demanded has risen..
 - C) price has decreased and the quantity demanded has fallen.
 - D) price has increased and the quantity demanded has fallen.

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: New

19) Use the above figure. The consumer's choice changes from Y_A to Y_B . Which of the following statements about good Y is true?

- A) price has increased and the quantity demanded has risen..
- B) price has decreased and the quantity demanded has risen.
- C) price has decreased and the quantity demanded has fallen.
- D) price has increased and the quantity demanded has fallen.

Answer: B

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: New

20) To derive the demand curve for good X, all the following are constant EXCEPT

- A) the price of good X.
- B) income.
- C) the price of good Y.
- D) tastes and preferences.

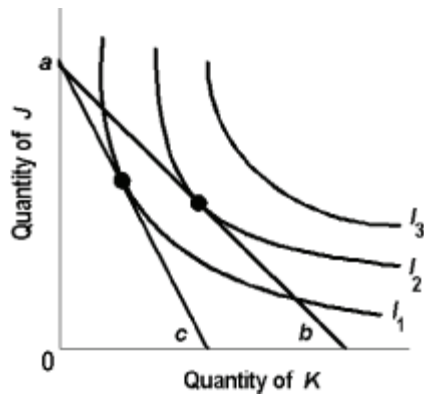
Answer: A

Diff: 1

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition



21) Use the above figure. When the budget line rotates from "b" to "c"

- A) the price of product J increases and the quantity demanded of product J decreases.
- B) the price of product J decreases and the quantity demanded of product J increases.
- C) the price of product K increases and the quantity demanded of product K decreases.
- D) the price of product K decreases and the quantity demanded of product K increases .

Answer: C

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: New

- 22) Use the above figure. When the budget line rotates from "c" to "b"
- A) the price of product J increases and the quantity demanded of product J decreases.
 - B) the price of product J decreases and the quantity demanded of product J increases.
 - C) the price of product K increases and the quantity demanded of product K decreases.
 - D) the price of product K decreases and the quantity demanded of product K increases.

Answer: D

Diff: 2

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: New

- 23) How does an increase in the price of an individual good or service affect a consumer optimum, and how does this help explain the law of demand?

Answer: Each person makes choices such that the marginal utility per dollar spent is equal for all goods consumed. If an item's price increases, an individual responds by reducing the quantity of that item demanded, which boosts the marginal utility of that item. Consequently, when the price of an item increases, the quantity of the item demanded declines, so the law of demand emerges.

Diff: 3

Topic: 20.14 Appendix F: Deriving the Demand Curve

AACSB: Analytic skills

Question Status: Previous Edition