1990

AP Microeconomics

Multiple Choice: Choose the item that best answers each question. Each question is worth an equal amount. You have 90 minutes to complete this test.

1. In which of the following instances will total revenue decline?

   A) price rises and supply is elastic

   B) price falls and demand is elastic

   C) price rises and demand is inelastic

   D) price rises and demand is elastic

2. The diamond-water paradox occurs because:

   A) the price of a product is related to its total utility, not its marginal utility.

   B) the price of a product is related to its marginal utility, not its total utility.

   C) water is, in fact, very scarce in certain regions of the world.

   D) diamonds are more useful than water.

3. When a consumer is maximizing total utility:

   A) the average utility from each dollar spent is the same.

   B) total utility cannot be increased by reallocating expenditures among various products.

   C) the total utility obtainable from *each* product is at a maximum.

   D) the marginal utility of the last unit of each product purchased is zero.

4. The rationing function of priees refers to the:

   A) tendency of supply and demand to shift in opposite directions.

   B) fact that ration coupons are needed to alleviate wartime shortages of goods.

   C) capacity of a competitive market to equate the quantity demanded and the quantity supplied.

   D) ability of the market system to generate an equitable distribution of income.

5. If price is above the equilibrium level, competition among sellers to reduce the resulting:

   A) surplus will increase quantity demanded and decrease quantity supplied.

   B) shortage will decrease quantity demanded and increase quantity supplied.

C) surplus will decrease quantity demanded and increase quantity supplied.

D) shortage will increase quantity demanded and decrease quantity supplied.

6. An increase in demand will increase equilibrium price to a greater extent:

A) if the product is a normal good.

B) if the product is an inferior good.

C) the less elastic the supply curve.

D) the more elastic the supply curve.

7. Which of the following will cause the demand curve for product A to shift to the left?

A) population growth that causes an expansion in the number of persons consuming A

B) an increase in money income if A is a normal good

C) a decrease in the price of complementary product C

D) an increase in money income if A is an inferior good

8. Suppose you have a limited money income and you are purchasing products A and B whose prices happen to be the same. To maximize your utility you should purchase A and B in such amounts that:

A) their marginal utilities are the same.

B) their total utilities are the same.

C) their marginal and total utilities are proportionate.

D) the income and substitution effects associated with each are equal.

9. Which of the following statements is *correct*?

A) If demand increases and supply decreases, equilibrium price will fall.

B) If supply increases and demand decreases, equilibrium price will fall.

C) If demand decreases and supply increases, equilibrium price will rise.

D) If supply declines and demand remains constant, equilibrium price will fall.

10. If a firm's demand for labor is elastic, a union-negotiated wage increase will:

A) necessarily be inflationary.

B) cause the firm's total payroll to increase.

C) cause the firm's total payroll to decline.

D) eause a shortage of labor.

11. If producers must obtain higher prices than previously to produce various levels of output, the following has oceurred:

A) a decrease in demand.

B) an increase in demand.

C) a decrease in supply.

D) an increase in supply.

Use the following to answer questions 12-21:

In the following question(s) you are asked to determine, other things equal, the effects of a given change in a determinant of demand or supply for product X upon (1) the demand (*D*) for, or supply (*S*) of, *X*, (2) the equilibrium price (*P*) of *X* and (3) the equilibrium quantity (*Q*) of *X*.

12. An increase in the price of a product that is a close substitute for *X* will:

A) decrease *D*, increase *P*, and decrease *Q*.

B) increase *D*, increase *P*, and decrease *Q*.

C) increase *D*, increase *P*, and increase *Q*.

D) increase *D*, decrease *P*, and increase *Q*.

13. An inerease in income, if *X* is a normal good, will:

A) increase *D*, increase *P*, and increase *Q*.

B) increase *D*, increase *P*, and decrease *Q*.

C) increase *S*, increase *P*, and increase *Q*.

D) decrease *D*, increase *P*, and increase *Q*.

14. An increase in the tastes and preferences for *X* will:

A) increase *S*, decrease *P*, and increase *Q*.

B) decrease *S*, decrease *P*, and decrease *Q*.

C) increase *D*, increase *P*, and increase *Q*.

D) decrease *D*, decrease *P*, and decreasc *Q*.

15. An improvement in the technology used to produce X will:

A) decrease S, increase P, and decrease Q.

B) decrease S, increase P, and increase Q.

C) increase S, decrease P, and increase Q.

D) decrease D, decrease P, and deerease Q.

16. A reduction in the number of firms producing X will:

A) increase D, increase P, and increase Q.

B) increase S, decrease P, and increase Q.

C) decrease S, increase P, and decrease Q.

D) decrease S, decrease P, and increase Q.

17. Consumer expeetations that the price of X will rise sharply in the future will:

A) increase S, increase P, and increase Q.

B) increase D, increase P, and increase Q.

C) decrease S, increase P, and increase Q.

D) increase D, decrease P, and increase Q.

18. An increase in the prices of resources used to produce X will:

A) increase S, increase P, and increase Q.

B) increase D, inerease P, and increase Q.

C) decrease S, decrease P, and decrease Q.

D) decrease S, increase P, and decrease Q.

19. An increase in the price of a product which is a complement to X will:

A) decrease S, decrease P, and decrease Q.

B) increase D, inerease P, and inerease Q.

C) decrease D, decrease P, and decrease Q.

D) increase D, increase P, and decrease Q.

20. A decrease in the number of consumers of product *X* will:

A) decrease *S*, decrease *P*, and decrease *Q*.

B) increase *D*, increase *P*, and increase *Q*.

C) decrease *D*, decrease *P*, and decrease *Q*.

D) decrease *D*, decrease *P*, and increase *Q*.

21. If *X* is an inferior good, a decrease in income will:

A) decrease *D*, decrease *P*, and decrease *Q*.

B) decrease *D*, decrease *P*, and increase *Q*.

C) increase *S*, decrease *P*, and increase *Q*.

D) increase *D*, increase *P*, and increase *Q*.

22. If the supply and demand curves for a product both decrease, then equilibrium:

A) quantity must fall and equilibrium price must rise

B) price must fall, but equilibrium quantity may either rise, fall, or remain unchanged.

C) quantity must decline, but equilibrium price may either rise, fall, or remain unchanged.

D) quantity and equilibrium price must both decline.

23. When a consumer shifts purchases from product X to product Y the marginal utility of:

A) X falls and the marginal utility of Y rises.

B) X rises and the marginal utility of Y falls.

C) both X and Y rises.

D) both X and Y falls.

24. If the demand for farm products is price inelastic, a good harvest will cause farm revenues to:

A) increase.

B) decrease.

C) be unchanged.

D) either increase or decrease, depending on what happens to supply.

25. The larger the positive eross elasticity eoefficient of demand between produets X and Y, the:

A) stronger their complementariness.

B) greater their substitutability.

C) smaller the priee elasticity of demand for both produets.

D) the less sensitive purehases of each are to increases in income.

26. Which of the following will cause a decrease in market equilibrium price and an increase in equilibrium quantity?

A) an increase in supply

B) an increase in demand

C) a decrease in supply

D) a decrease in demand

27. When the price of a product increases, a consumer is able to buy less of it with a given money income. This deseribes:

A) the cost effect.

B) the inflationary effect.

C) the income effect.

D) the substitution effect.

28. Suppose Wilkes Pizzeria currently faces a linear demand curve and is charging a very high price per pizza and doing very little business. Andrew now decides to lower pizza prices by 5% per week for an indefinite period of timc. We can expect that each successive wcek:

A) demand will becomc more price elastic.

B) price elasticity of demand will not change as price is lowered.

C) demand will become less price elastic.

D) the elasticity of supply will increase.

29. The elasticity of demand for a product is likely to be greater:

A) if the product is a necessity, rather than a luxury good.

B) the greater the amount of time over which buyers adjust to a price change.

C) the smaller the proportion of one's income spent on the product.

D) the smaller the number of substitute products available.

30. The Illinois Central Railroad once asked the Illinois Commerce Commission for permission to increase its commuter rates by 20%. The railroad argued that declining revenues made this rate increase essential. Opponents of the rate increase contended that the railroad's revenues would fall because of the rate hike. It can be concluded that:

A) both groups felt that the demand was elastic but for different reasons.

B) both groups felt that the demand was inelastie but for different reasons.

C) the railroad felt that the demand for passenger service was inelastic and opponents of the rate increase felt it was elastic.

D) the railroad felt that the demand for passenger service was elastic and opponents of the rate inerease felt it was inelastic.

31. One can say with certainty that equilibrium quantity will increase when supply:

A) and demand both decrease.

B) increases and demand decreases.

C) deereases and demand increases.

D) and demand both incrcase.

32. To maximize utility a consumer should allocate money income so that the:

A) elasticity of demand on all products purchased is the same.

B) marginal utility obtained from the last dollar spent on each product is the same.

C) total utility derived from each product consumed is the same.

D) marginal utility of the last unit of each product consumed is the same.

33. In introducing the opportunity cost of time into the theory of consumer behavior we find that, all else equal:

A) one should consume less of time-intensive goods.

B) one should consume more of time-intensive goods.

C) the consumer's equilibrium position is not altered.

D) the marginal utility derived from each product must be multiplied by consumption time in determining equilibrium.

34. Assume the demand for a product is perfectly inelastic. If government establishes a price floor that is $2 above the equilibrium price, the resulting:

A) shortage will be greater the more elastic the supply.

B) shortage will be greater the less elastic the supply.

C) surplus will be greater the more elastic the supply.

D) surplus will be greater the less elastic the supply.

35. An increase in the price of a product will reduce the amount of it purchased because:

A) supply curves are upsloping.

B) the higher price means that real incomes have risen.

C) consumers will substitute other products for the one whose price has risen.

D) consumers substitute relatively high-priced for relatively low-priced products.

36. If the supply of product X is perfectly elastic, an increase in the demand for it will increase:

A) equilibrium quantity but reduce equilibrium price.

B) equilibrium quantity but equilibrium price will be unchanged.

C) equilibrium price but reduce equilibrium quantity.

D) equilibrium price but equilibrium quantity will be unchanged.

37. When the percentage change in price is greater than the resulting percentage change in quantity demanded:

A) a decrease in price will increase total revenue.

B) demand may be either elastic or inelastic.

C) an increase in price will increase total revenue.

D) demand is elastic.

38. An increase in the price of product A will:

A) increase the marginal utility per dollar spent on A.

B) decrease the marginal utility per dollar spent on A.

C) not affect the marginal utility per dollar spent on A.

D) cause utility-maximizing consumers to buy more of A.

39. Suppose the price of a product rises and the total revenue of sellers increases.

A) It can be concluded that the demand for the product is elastic.

B) It can be concluded that the supply of the product is elastic.

C) It can be concluded that the supply of the product is inelastic.

D) No conclusion can be reached with respect to the elasticity of supply.

40. If products C and D are close substitutes, an increase in the price of C will:

A) tend to cause the price of D to fall.

B) shift the demand curve of C to the left and the demand curve of D to the right.

C) shift the demand curve of D to the right.

D) shift the demand curves of both products to the right.

41. A consumer is maximizing her utility with a particular money income when:

A) the total utility derived from each product consumed is the same.

B) $MU_a/P_a = MU_b/P_b = MU_c/P_c = \ldots = MU_n/P_n$.

C) $MU_a = MU_b = MU_c = \ldots = MU_n$.

D) $P_a = P_b = P_c = \ldots = P_n$.

42. Which of the following statements is *correct*?

A) If marginal utility is diminishing, total utility must also be diminishing.

B) There is no relationship between how rapidly marginal utility declines and the price elasticity of demand.

C) If an individual's marginal utility from a product diminishes rapidly, her demand for this product is inelastic with respect to price.

D) If an individual's marginal utility from a product diminishes rapidly, her demand for this product is elastic with respect to price.

43. At the current price there is a shortage of a product. We would expect price to:

A) increase, quantity demanded to increase, and quantity supplied to decrease.

B) increase, quantity demanded to decrease, and quantity supplied to increase.

C) increase, quantity demanded to increase, and quantity supplied to increase.

D) decrease, quantity demanded to increase, and quantity supplied to decrease.

44. One can say with certainty that equilibrium price will decline when supply:

A) and demand both decrease.

B) increases and demand decreases.

C) decreases and demand increases.

D) and demand both increase.

45. "In the corn market, demand often exceeds supply and supply sometimes exceeds demand. The priee of corn rises and falls in response to changes in supply and demand." In which of these two statements are the terms "demand" and "supply" being used correctly?

A) in neither statement

B) in the second statement

C) in the first statement

D) in both statements

46. Suppose product X is an input in the production of product Y. Product Y in turn is a substitute for product Z. An increase in the price of X can be expected to:

A) deerease the demand for Z.

B) increase the demand for Z.

C) have no effect on the demand for Z.

D) decrease the supply of Z.

47. If the price of product X rises, then the resulting declinc in the amount purchased will:

A) necessarily increase the consumer's total utility from his total purchases.

B) increase the marginal utility of this good.

C) increase the total utility from purchases of this good.

D) reducc the marginal utility of this good.

48. Most demand curves are relatively elastic in the upper-left portion because the original price:

A) and quantity from which the percentage changes in price and quantity are calculated are both large.

B) and quantity from which the percentage changes in price and quantity are calculated are both small.

C) from which the percentage price change is calculated is small and the original quantity from which the percentage change in quantity is calculated is large.

D) from which the percentage price change is calculated is large and the original quantity from which the percentage change in quantity is calculated is small.

49. Ben is exhausting his money income consuming products A and B in such quantities that $MU_a/P_a = 5$ and $MU_b/P_b = 8$. Ben should purchase:

A) more of A and less of B.

B) more of B and less of A.

C) more of both A and B.

D) less of both A and B.

50. Marginal utility is the:

A) sensitivity of consumer purchases of a good to changes in the price of that good.

B) change in total utility realized by consuming one more unit of a good.

C) change in total utility realized by consuming another unit of a good divided by the change in the price of that good.

D) total utility associated with the consumption of a certain number of units of a good divided by the number of units consumed.

51. If total utility is increasing, marginal utility:

A) is positive, but may be either increasing or decreasing.

B) must also be increasing.

C) may be either positive or negative.

D) will be increasing at an increasing rate.

52. Suppose that Elizabeth is currently exhausting her money income by purehasing 10 units of A and 8 units of B at priees of $2 and $4 respectively. The marginal utility of the last units of A and B are 16 and 24 respectively. These data suggcst that Elizabeth:

A) has preferences that are at odds with the principle of diminishing marginal utility.

B) considers A and B to be eomplementary goods.

C) should buy less A and more B.

D) should buy less B and more A.

53. If the price clasticity of demand for a product is 2.5, then a price cut from $2.00 to $1.80 will:

A) increase the quantity demanded by about 2.5 percent.

B) decrease the quantity demanded by about 2.5 percent.

C) increase the quantity demanded by about 25 percent.

D) increase the quantity demanded by about 250 percent.

54. A leftward shift of a product supply curve might be causcd by:

A) an improvement in the relevant technique of production.

B) a decline in the prices of needed inputs.

C) an increase in consumer incomes.

D) some firms leaving an industry.

55. If the supply of a product decreases and the demand for that product simultaneously incrcases, then equilibrium:

A) price must rise, but equilibrium quantity may either rise, fall, or remain unchanged.

B) price must risc and equilibrium quantity must fall.

C) price and cquilibrium quantity must both increase.

D) price and equilibrium quantity must both decline.

56. Where total utility is at a maximum, marginal utility is:

A) negative.

B) positive and increasing.

C) zero.

D) positive but decreasing.

57. A firm can sell more or less output at a constant price. Demand is thus:

A) perfeetly inclastic

B) perfectly elastic

C) relativcly inelastic

D) relatively elastic

58. The larger the coefficient of price clasticity of demand for a product, the:

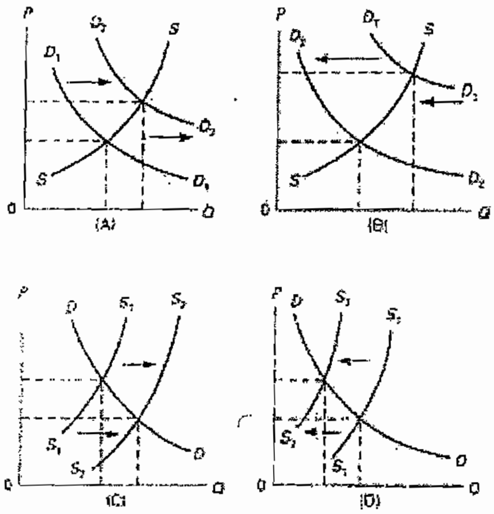
A) larger the resulting pricc change for an increase in supply.

B) more rapid the rate at which the marginal utility of that product diminishes.

C) less competitive will be the industry supplying that product.

D) smaller the resulting price change for an increase in supply.

Use the following to answer questions 59-64:



59. Which of the above diagrams illustrate(s) the effeet of a decline in the price of personal computers on the market for software?

A) A only

B) A and D

C) B only

D) D only

60. Which of the above diagrams illustrate(s) the effect of a decrease in incomes on the market for secondhand clothing?

A) A and C

B) A only

C) B only

D) C only

61. Which of the above diagrams illustrate(s) the effect of a decline in the price of irrigation equipment on the market for corn?

A) B only

B) C only

C) B and C

D) D only

62. Which of the above diagrams illustrate(s) the effect of an increase in automobile worker wages on the market for automobiles?

A) A only

B) B only

C) C only

D) D only

63. Which of the above diagrams illustrate(s) the effect of a governmental subsidy on the market for AIDS research?

A) A only

B) B only

C) C only

D) D only

64. Which of the above diagrams illustrate(s) the effect of an increase in the price of Budweiser beer on the market for Coors beer?

A) A and C

B) A only

C) B only

D) C only

65. We would expect the cross elasticity of demand between Pepsi and Coke to be:

A) positive, indicating normal goods.

B) positive, indicating inferior goods.

C) positive, indicating substitute goods.

D) negative, indicating substitute goods.

66. Marginal utility:

A) is equal to total utility divided by the number of units consumed.

B) is equal to total utility if the demand curve is linear.

C) increases as more of a product is consumed.

D) diminishes as more of a product is consumed.

67. The main determinant of elasticity of supply is the:

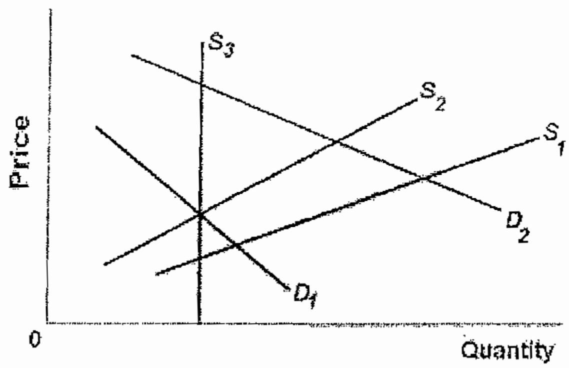
A) number of close substitutes for the product available to consumers.

B) amount of time the producer has to adjust inputs in response to a price change.

C) urgency of consumer wants for the product.

D) number of uses for the product.

Use the following to answer question 68:



68. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. Supply curves S_1, S_2, and S_3 apply to the:

A) immediate market period, long run, and short run respectively.

B) immediate market period, short run, and long run respectively.

C) long run, short run, and immediate market period respectively.

D) short run, long run, and immediate market period respectively.

69. Which of the following would *not* shift the demand curve for beef?

A) a widely publicized study that indicates beef increases one's cholesterol

B) a reduction in the price of cattle feed

C) an effective advertising campaign by pork produeers

D) a change in the incomes of beef consumers

70. Which of the following statements is *not* correet?

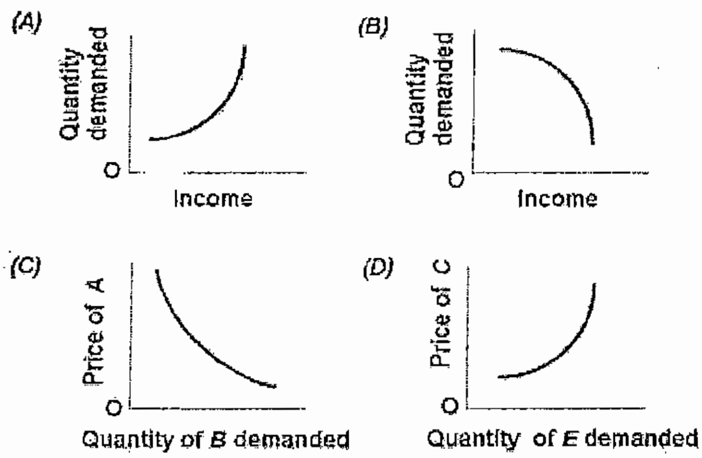
A) If the relative change in price is greater than the relative change in the quantity demanded associated with it, demand is inelastic.

B) In the range of prices in which demand is elastic, total revenue will diminish as priee decreases.

C) Total revenue will not change if price varies within a range where the elastieity coefficient is unity.

D) Demand tends to be elastic at high prices and inelastic at low prices.

Use the following to answer questions 71-75:



71. In which ease would the coefficient of income elasticity be positive?

A) A.

B) B.

C) C.

D) D.

72. The case of an inferior good is represented by figure(s):

A) A only.

B) B only.

C) C.

D) D.

73. In which case would the coefficient of cross elasticity of demand be negative?

A) A

B) B

C) C

D) D

74. The case of complementary goods is represented by figure:

A) A.

B) B.

C) C.

D) D.

75. In which ease would the coefficient of cross elasticity of demand be positive?

A) A.

B) B.

C) C.

D) D.

76. The demand for a luxury good whose purchase would exhaust a significant portion of one's income is:

A) perfectly inelastie

B) perfectly elastic

C) relatively inelastic

D) relatively elastic

77. Which of the following will *not* cause the demand for product K to change?

A) a change in the price of close-substitute product J

B) an increase in consumer incomes

C) a change in the price of K

D) a change in consumer tastes

78. Suppose that a 20% increase in the price of normal good Y causes a 10% decline in the quantity demanded of normal good X. The coefficient of eross elasticity of demand is:

A) negative and therefore these goods are substitutes.

B) negative and therefore these goods are complements.

C) positive and therefore these goods are substitutes.

D) positive and therefore these goods are complements.

79. Assume you are spending your full budget and purchasing such amounts of X and Y that the marginal utility from the last units consumed is 40 and 20 utils respectively. Assume (a) the prices of X and Y are $8 and $4 respectively; (b) it takes 3 hours to consume a unit of X and 1 hour to consume a unit of Y; and (c) your time is worth $2 per hour. You

A) should substitute X for Y until the marginal utility per hour is the same for both products.

B) are consuming X and Y in the optimal amounts.

C) should consume less of Y and more of X.

D) should consume less of X and more of Y.

80. In which of the following instances is the effect on equilibrium price indeterminate, that is, dependent on the magnitude of the shifts in supply and demand?

A) demand rises and supply rises

B) supply falls and demand remains constant

C) demand rises and supply falls

D) supply rises and demand falls

81. If the demand for product X is inelastic, a 4% increase in the price of X will:

A) decrease the quantity of X demanded by more than 4%.

B) decrease the quantity of X demanded by less than 4%.

C) increase the quantity of X demanded by more than 4%.

D) increase the quantity of X demanded by less than 4%.

82. Other things equal, the shortage associated with a price ceiling will be greater the:

A) smaller the elasticity of both demand and supply.

B) greater the elasticity of both demand and supply.

C) greater the elasticity of supply and the smaller the elasticity of demand.

D) greater the elasticity of demand and the smaller the elasticity of supply.

83. The rate at which marginal utility for a product diminishes tells us something about:

A) its cross elasticity of demand.

B) its income elasticity of demand.

C) its price elasticity of demand.

D) whether it is a normal or an inferior good.

84. A leftward shift in the supply curve of product X will increase equilibrium price to a greater extent the:

A) more elastic the supply curve.

B) larger the elasticity of demand coefficient.

C) more elastic the demand for the product.

D) more inelastic the demand for the product.

85. The price elasticity of supply measures how:

A) easily labor and capital can be substituted for one another in the production process.

B) responsive the quantity supplied of X is to changes in the price of X.

C) responsive the quantity supplied of Y is to changes in the price of X.

D) responsive quantity supplied is to a change in incomes.

86. The theory of consumer behavior assumes that :

A) consumers behave rationally, maximizing their satisfactions.

B) consumers have unlimited money incomes.

C) consumers do not know how much marginal utility they obtain from succesive units of various products.

D) marginal utility is constant.

87. An effective price floor will:

A) force some firms in this industry to go out of business.

B) result in a product surplus.

C) result in a product shortage.

D) clear the market.

88. Which of the following generalizations is *not* correct?

A) The larger an item is in one's budget, the greater the price elasticity of demand.

B) The price elasticity of demand is greater for necessities than it is for luxuries.

C) The larger the number of close substitutes available, the greater will be the price elasticity of demand for a particular product.

D) The price elasticity of demand is greater the longer the time period under consideration.

89. Suppose that MU_x/P_x exceeds MU_y/P_y. To maximize utility the consumer who is spending all her money income should buy:

A) less of X only if its price rises.

B) more of Y only if its price rises.

C) more of Y and less of X.

D) more of X and less of Y.

90. In constructing a stable demand curve for product X:

A) consumer preferences are allowed to vary.

B) the prices of other goods are assumed constant.

C) money incomes are allowed to vary.

D) the supply curve of product X is assumed to be fixed.

Answer Key

1. D
2. B
3. B
4. C
5. A
6. C
7. D
8. A
9. B
10. C
11. C
12. C
13. A
14. C
15. C
16. C
17. B
18. D
19. C
20. C
21. D
22. C
23. B
24. B
25. B
26. A
27. C
28. C
29. B
30. C
31. D
32. B
33. A
34. C
35. C
36. B
37. C
38. B
39. D
40. C
41. B
42. C
43. B
44. B
45. B
46. B
47. B
48. D
49. B
50. B
51. A
52. D
53. C
54. D
55. A
56. C
57. B
58. D
59. A
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61. B
62. D
63. C
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65. C
66. D
67. B
68. C
69. B
70. B
71. A
72. B
73. C
74. C
75. D
76. D
77. C
78. B
79. D
80. A
81. B
82. B
83. C
84. D
85. B
86. A
87. B
88. B
89. D
90. B