

Ch 4

1. Each point on a _____ curve shows the willingness of consumers to purchase a product at different prices.

- A) demand
- B) supply
- C) production possibilities
- D) marginal cost

Answer: A

2. Provincial governments in BC, Manitoba, Ontario and Quebec have various forms of rent control. Rent control

- A) puts a legal limit on the rent that landlords can charge for an apartment.
- B) is a price floor which sets a minimum rent for apartments.
- C) only applies to those apartments which are owned and rented out by the local government.
- D) is a government policy which limits apartment rental to those people whose incomes are less than \$50,000 per year.

Answer: A

3. Lucinda buys a new GPS system for \$250. She receives consumer surplus of \$75 from the purchase. How much does Lucinda value her GPS system?

- A) \$75
- B) \$175
- C) \$250
- D) \$325

Answer: D

4. The area _____ the market supply curve and _____ the market price is equal to the total amount of producer surplus in a market.

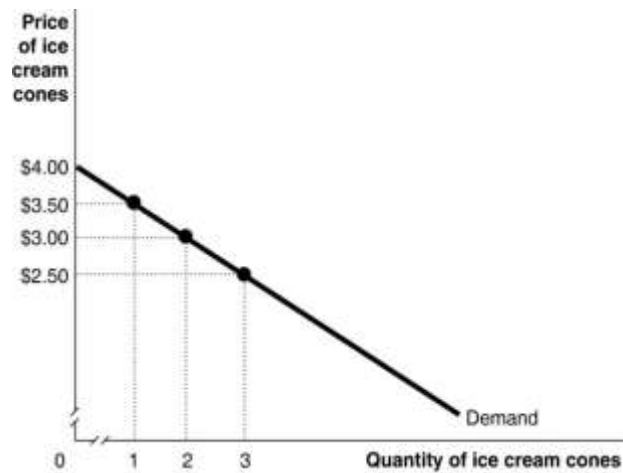
- A) above; above
- B) above; below
- C) below; above
- D) below; below

Answer: B

5. Which of the following statements is *true*?

- A) Consumer surplus measures the total benefit from participating in a market.
- B) When a market is in equilibrium, consumer surplus equals producer surplus.
- C) Consumer surplus measures the net benefit from participating in a market.
- D) Producer surplus measures the total benefit received by producers from participating in a market.

Answer: C



6. Refer to Figure . Kendra's marginal benefit from consuming the second ice cream cone is

- A) \$6.50.
- B) \$6.00.
- C) \$3.00.
- D) \$2.25.

Answer: C

7. Refer to Figure . If the market price is \$2.50, what is the consumer surplus on the second ice cream cone?

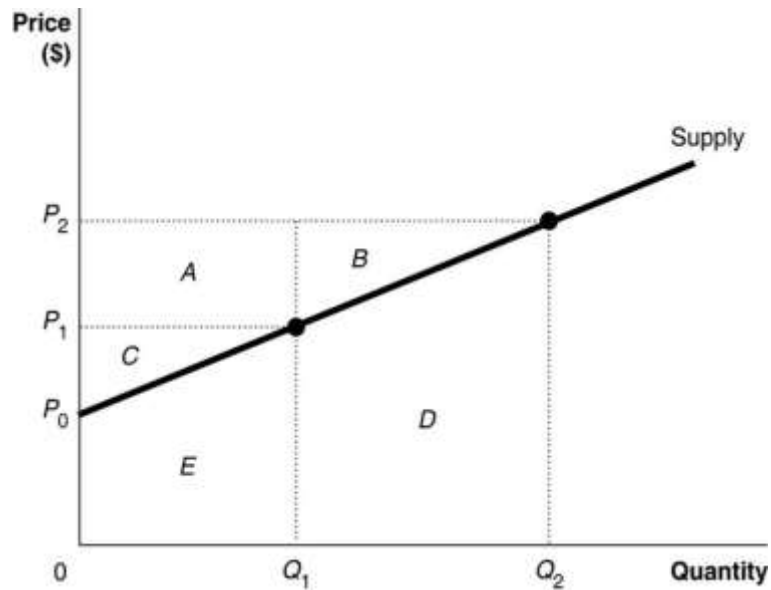
- A) \$0.50
- B) \$1.50
- C) \$3.00
- D) \$10.50

Answer: A

8. Refer to Figure . If the market price is \$2.50, what is Kendra's consumer surplus?

- A) \$9.00
- B) \$7.50
- C) \$1.50
- D) \$0

Answer: C



9. Refer to Figure . What area represents producer surplus at a price of P_1 ?

- A) C
- B) $A + C$
- C) $C + E$
- D) $A + C + E$

Answer: A

10. Refer to Figure. What area represents the decrease in producer surplus when the market price falls from P_2 to P_1 ?

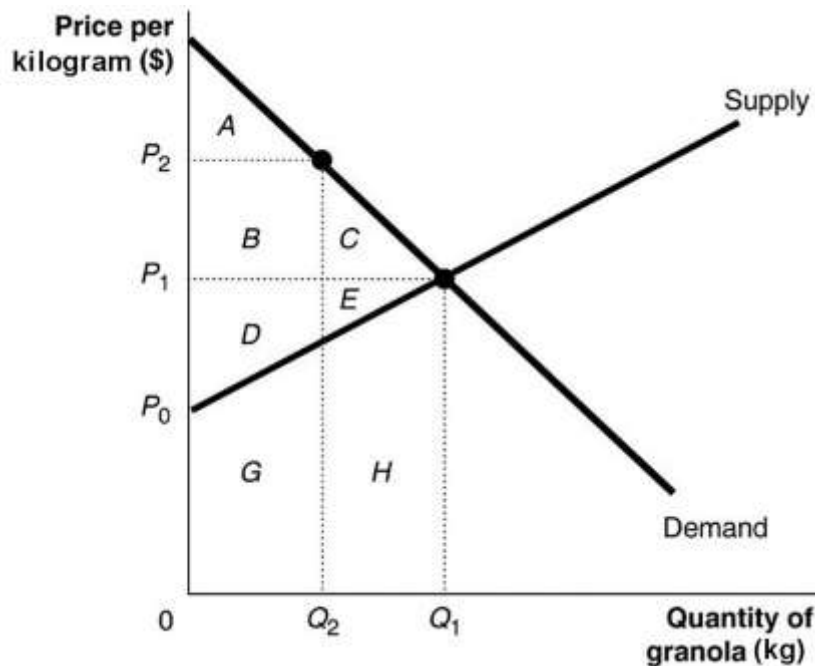
- A) $C + E$
- B) $A + C + E$
- C) $A + B$
- D) $B + D$

Answer: C

11. Economic surplus

- A) does not exist when a competitive market is in equilibrium.
- B) is equal to the sum of consumer surplus and producer surplus.
- C) is the difference between quantity demanded and quantity supplied when the market price for a product is greater than the equilibrium price.
- D) is equal to the difference between consumer surplus and producer surplus.

Answer: B



12. Refer to Figure . What area represents the deadweight loss at P_2 ?

- A) $C + E + H$
- B) $G + H$
- C) $C + E$
- D) $B + C$

Answer: C

13. To affect the market outcome, a price ceiling

- A) must be set below the black market price.
- B) must be set below the legal price.
- C) must be set below the price floor.
- D) must be set below the equilibrium price.

Answer: D

14. In order to prevent a massive surplus of milk, the government

- A) forces everyone to purchase at least 2 litres of milk a week.
- B) requires all producers to acquire one of a limited number of licences.
- C) buys any extra milk that producers would like to sell at the regulated price.
- D) converts any surplus milk into ice cream.

Answer: B

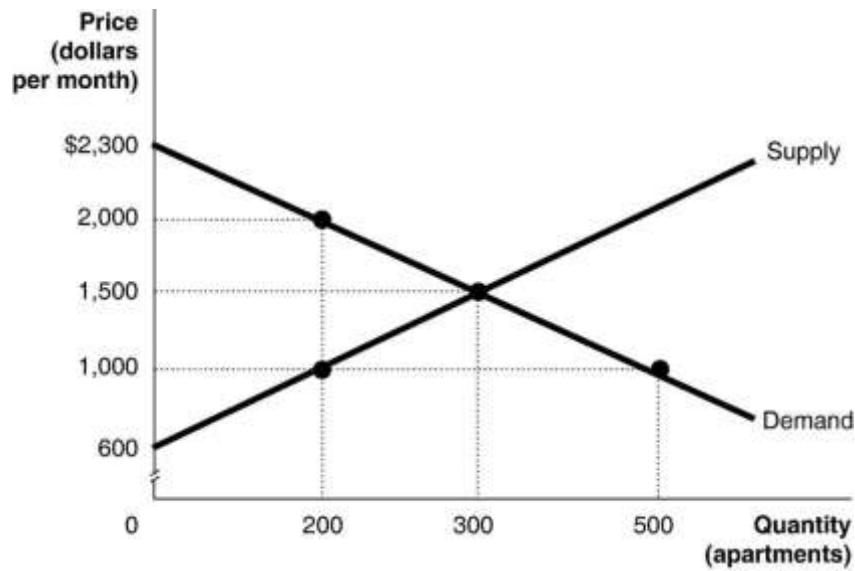


Figure shows the market for apartments in Springfield. Recently, the government imposed a rent ceiling of \$1,000 per month.

15. Refer to Figure . With rent control, the quantity supplied is 200 apartments. Suppose apartment owners ignore the law and rent this quantity for the highest rent they can get. What is the highest rent they can get per month?

- A) \$1,000
- B) \$1,500
- C) \$2,000
- D) \$2,300

Answer: C

16. **Refer to Figure .** What is the value of consumer surplus after the imposition of the ceiling?

- A) \$120,000
- B) \$230,000
- C) \$270,000
- D) \$430,000

Answer: B

17. **Refer to Figure** What is the value of producer surplus after the imposition of the ceiling?

- A) \$40,000
- B) \$100,000
- C) \$300,000
- D) \$430,000

Answer: A

18. **Refer to Figure.** What is the value of the deadweight loss after the imposition of the ceiling?

- A) \$50,000
- B) \$125,000
- C) \$175,000
- D) \$260,000

Answer: A

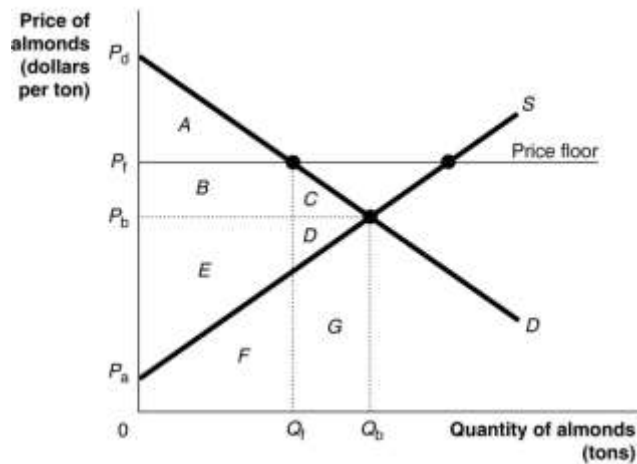


Figure shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at P_f .

19. **Refer to Figure** What area represents consumer surplus after the imposition of the price floor?

- A) $A + B + E$
- B) $A + B$
- C) $A + B + E + F$
- D) A

Answer: D

20. Refer to Figure . What area represents the portion of consumer surplus that has been transferred to producer surplus as a result of the price floor?

- A) B
- B) $B + C$
- C) $B + E$
- D) E

Answer: A

21. In order to be binding, a price floor

- A) must lie above the free market equilibrium price.
- B) must lie below the free market equilibrium price.
- C) must coincide with the free market equilibrium price.
- D) must be high enough for firms to earn a profit.

Answer: A

22. Increases in the minimum wage are intended to raise the incomes of low-income workers. Many economists favour a different policy to achieve this goal; a policy that avoids the deadweight losses that result from the minimum wage. What is this policy?

- A) distribution of food stamps to low-income consumers
- B) distribution of vouchers that can be used for rent or mortgage payments
- C) the Alternative Minimum Tax
- D) the earned income tax credit

Answer: D

23. Which of the following is a result of imposing a rent ceiling?

- A) Some consumer surplus is converted to producer surplus.
- B) There is an increase in the quantity of apartments supplied.
- C) There is an increase in the quantity of apartments demanded.
- D) The marginal benefit of the last apartment rented is less than the marginal cost of supplying it.

Answer: C

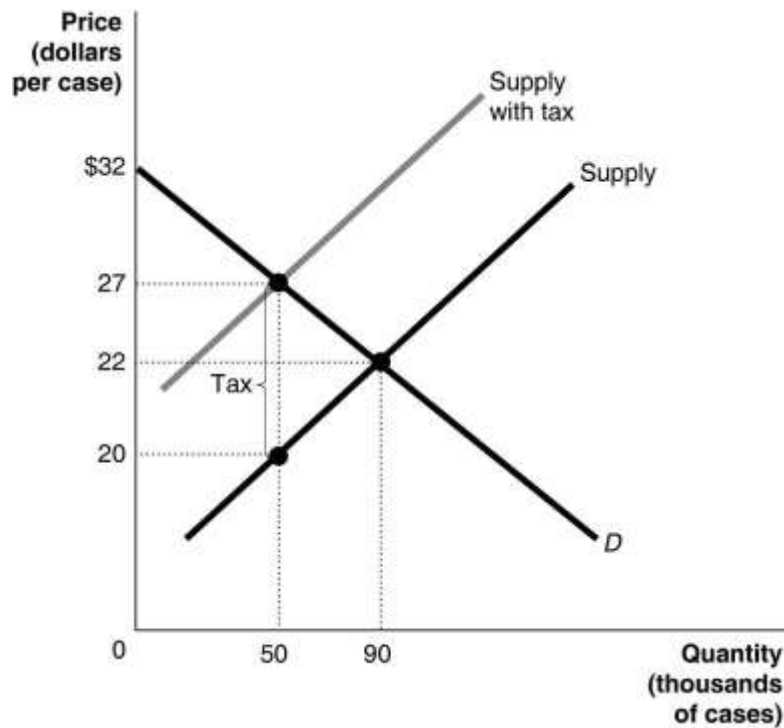


Figure shows the market for beer. The government plans to impose a unit tax in this market.

24. Refer to Figure . What is the size of the unit tax?

- A) \$2
- B) \$5
- C) \$7
- D) \$12

Answer: C

25. Refer to Figure How much of the tax is paid by buyers?

- A) \$2
- B) \$5
- C) \$7
- D) \$12

Answer: B

26. Refer to Figure . The price buyers pay after the tax is

- A) \$7.
- B) \$20.
- C) \$22.
- D) \$27.

Answer: D

27. Refer to Figure . For each unit sold, the price sellers receive after the tax (net of tax) is

- A) \$20.
- B) \$22.
- C) \$27.
- D) \$32.

Answer: A

28. Refer to Figure . As a result of the tax, is there a loss in consumer surplus?

- A) Yes, because consumers paying a price above the economically efficient price.
- B) No, because the producer pays the tax.
- C) No, because the market reaches a new equilibrium.
- D) No, because consumers are charged a lower price to cover their tax burden.

Answer: A

29. Tax incidence is the actual division of the

- A) burden of the tax between buyers and sellers in a market.
- B) tax revenues between government agencies.
- C) tax revenues between the federal government and state governments.
- D) population into different tax brackets.

Answer: A

30. The government proposes a tax on halogen light bulbs. Sellers will bear the entire burden of the tax if the

- A) supply curve for halogen bulbs is horizontal.
- B) demand curve for halogen bulbs is vertical.
- C) demand curve for halogen bulbs is horizontal.
- D) demand curve is downward sloping and the supply curve is upward sloping.

Answer: C

31. Economists have shown that the burden of a tax is the same whether the tax is collected from the buyer or the seller. Why, then, are gasoline and cigarette taxes imposed on sellers?

- A) Sellers are more honest than buyers.
- B) The demand for both gasoline and cigarettes is very elastic.
- C) The Supreme Court has ruled that the government cannot impose taxes like these on buyers.
- D) It is more difficult for buyers to keep track of their purchases, and for the government to verify that the right amount of tax revenue is collected.

Answer: D

Ch 6

1. Price elasticity of demand measures

- A) how responsive suppliers are to price changes.
- B) how responsive sales are to changes in the price of a related good.

- C) how responsive quantity demanded is to a change in price.
- D) how responsive sales are to a change in buyers' incomes.

Answer: C

2. If the percentage increase in price is 15 percent and the value of the price elasticity of demand is -3, then quantity demanded

- A) will increase by 45 percent.
- B) will increase by 5 percent.
- C) will decrease by 45 percent.
- D) will decrease by 5 percent.

Answer: C

3. The price elasticity of demand for Stork ice cream is -4. Suppose you're told that following a price increase, quantity demanded fell by 10 percent. What was the percentage change in price that brought about this change in quantity demanded?

- A) 40 percent
- B) 25 percent
- C) 2.5 percent
- D) 0.4 percent

Answer: C

4. If demand is perfectly inelastic, the absolute value of the price elasticity of demand is

- A) zero.
- B) less than one.
- C) more than one.
- D) equal to the absolute value of the slope of the demand curve.

Answer: A

5. Jenna runs a small boutique in Capitola. She tells one of her suppliers that she is willing to pay \$6 for a pair of wool hand warmers and not a dime more. On the basis of this information, what can you conclude about her price elasticity of demand for wool hand warmers?

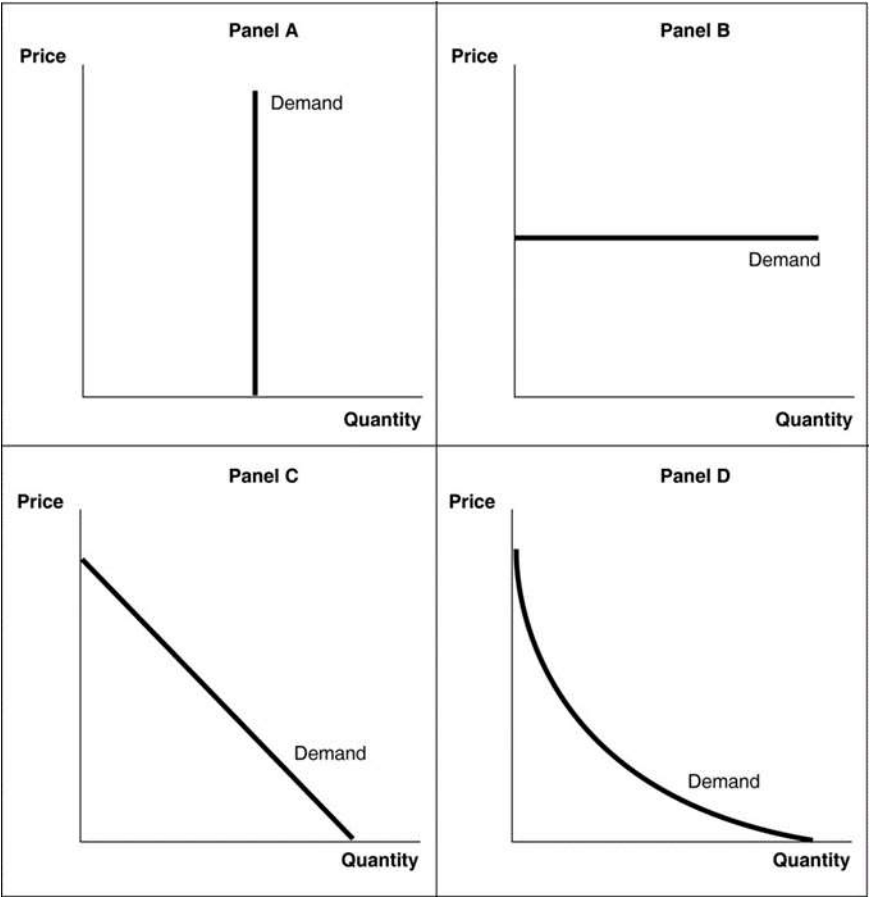
- A) It is elastic.
- B) It is perfectly elastic.
- C) It is perfectly inelastic.
- D) The price elasticity coefficient is 0.

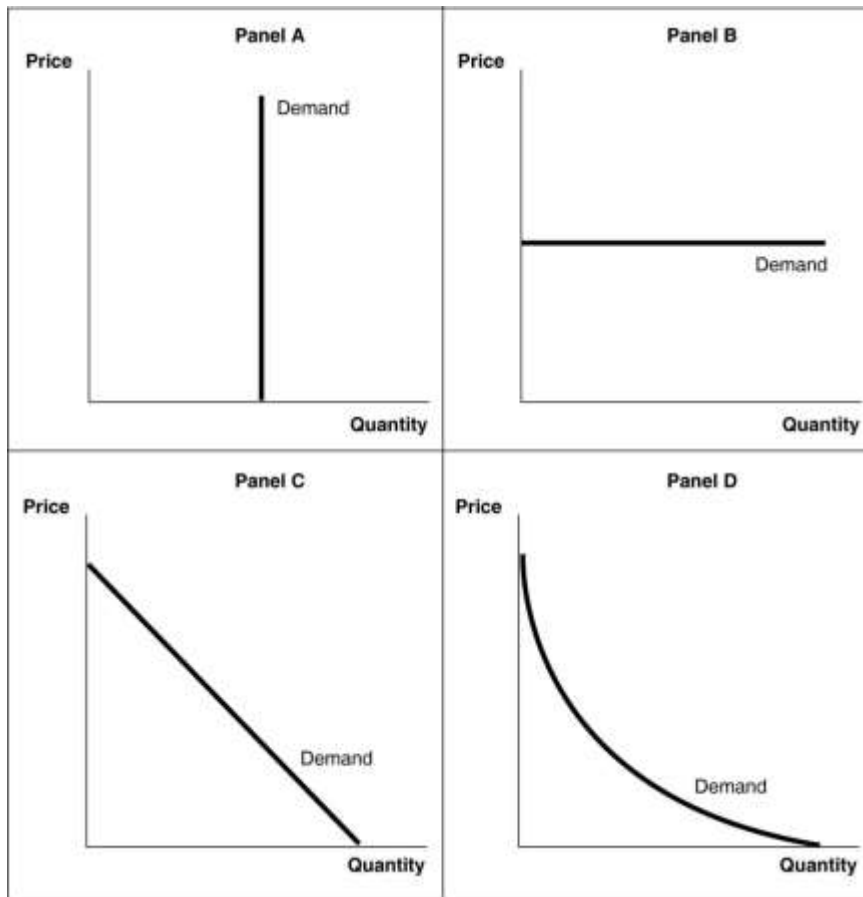
Answer: B

6. Seth is a competitive body builder. He says he has to have his 12-oz package of protein powder to "feed his muscles" every day. On the basis of this information, what can you conclude about his price elasticity of demand for protein powder?

- A) It is elastic.
- B) It is perfectly elastic.
- C) It is perfectly inelastic.
- D) The price elasticity coefficient is 0.

Answer: C





7. *Refer to Figure .* The demand curve on which elasticity changes at every point is shown in

- A) Panel A.
- B) Panel B.
- C) Panel C.
- D) none of the above graphs.

Answer: C

8. *Refer to Figure .* A perfectly inelastic demand curve is shown in

- A) Panel A.
- B) Panel B.
- C) Panel C.
- D) Panel D.

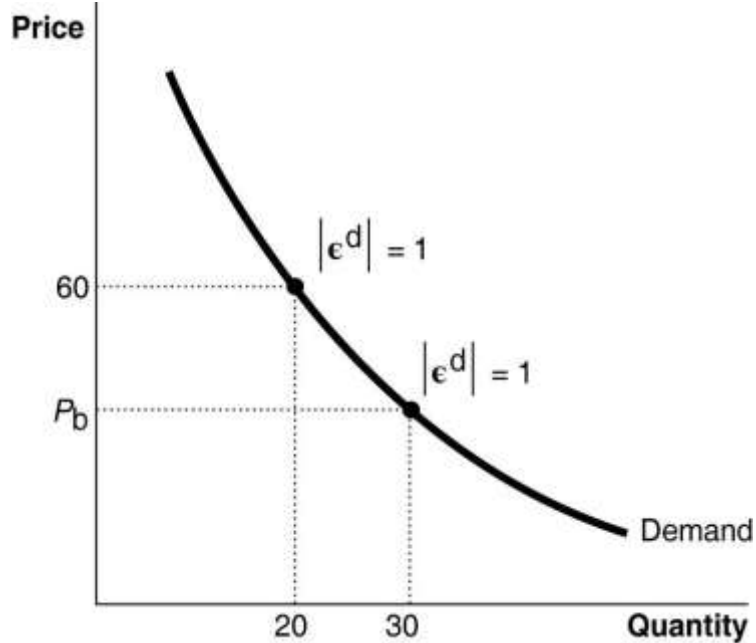
Answer: A

9. If 50 units are sold at a price of \$20 and 80 units are sold at a price of \$15, what is the absolute value of the price elasticity of demand? Use the midpoint formula.

- A) 0.17
- B) 0.62
- C) 1.62
- D) 5

Answer: C

10.



Refer to Figure . The absolute value of the price elasticity of demand at points *a* and *b* is 1. What is the value of P_b ?

- A) \$50
- B) \$40
- C) \$30
- D) \$20

Answer: B

11. Suppose a hurricane decreased the supply of oranges so that the price of oranges rose from \$120 a ton to \$180 a ton and quantity sold decreased from 800 tons to 240 tons. What is the absolute value of the price elasticity of demand?

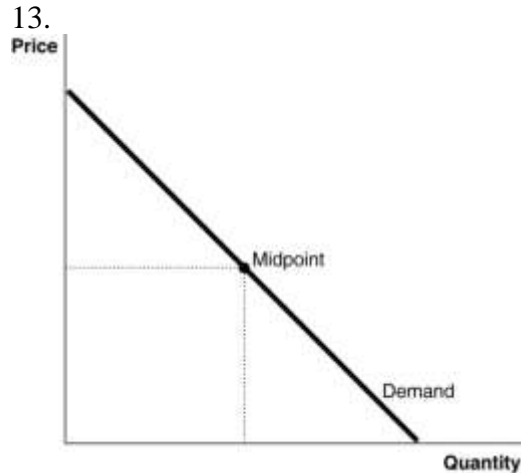
- A) 0.11
- B) 0.37
- C) 2.69
- D) 9.33

Answer: C

12. Jaycee Jeans sold 40 pairs of jeans at a price of \$40. When it lowered its price to \$20, the quantity sold increased to 60 pairs. Calculate the absolute value of the price elasticity of demand. Use the midpoint formula.

- A) 1.67
- B) 1.0
- C) 0.6
- D) 0.53

Answer: C



Refer to Figure Which of the following statements is true about the price elasticity of demand?

- A) The elasticity coefficient is constant along the demand curve.
- B) The elastic portion of a straight-line downward-sloping demand curve corresponds to the segment above the midpoint.
- C) The inelastic portion of the demand curve corresponds to the segment above the midpoint.
- D) At the midpoint of the demand curve, the elasticity coefficient is zero.

Answer: B

14. Which of the following statements is true about the price elasticity of demand along a downward-sloping linear demand curve?

- A) It is inelastic at high prices and elastic at low prices.
- B) It is unit-elastic throughout the demand curve.
- C) It is elastic at high prices and inelastic at low prices.
- D) It is perfectly elastic at very high prices and perfectly inelastic at very low prices.

Answer: C

15. If the demand for a life-saving drug was perfectly inelastic and the price doubled, the quantity demanded would

- A) also double.
- B) decrease by 50%.
- C) be cut in half.
- D) remain constant.

Answer: D

16. At a price of \$100, Beachside Canoe Rentals rented 11 canoes. When it increased its rental price to \$125, 9 canoes were rented. Calculate the absolute value of the price elasticity of demand for canoe rentals, using the midpoint formula.

- A) 2
- B) 1.25
- C) 0.9
- D) 0.75

Answer: C

17. If at a price of \$50, Ghani sells 20 hand-made leather cell-phone covers but at a price of \$60, zero units are sold. Based on this information, the demand for his cell-phone covers is

- A) elastic or perfectly inelastic.
- B) elastic or perfectly elastic.
- C) unit-elastic.
- D) perfectly inelastic.

Answer: B

18. For consumers who opt to pay a \$10 monthly fee to have unlimited texting on their cell phones, but choose not to pay a \$5 monthly fee to have unlimited call minutes, the unlimited texting option has a _____ than the unlimited minutes option.

- A) higher price elasticity of demand
- B) higher cross-price elasticity of demand
- C) lower price elasticity of demand
- D) lower cross-price elasticity of demand

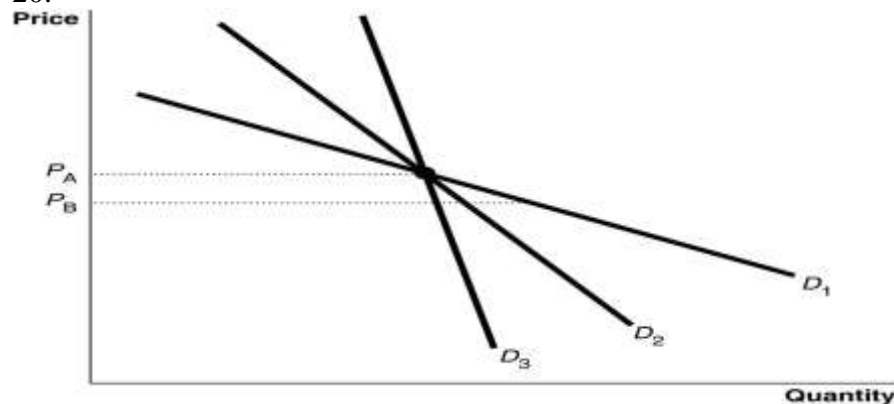
Answer: C

19. If the price elasticity of demand for insulin is equal to zero, then the demand curve for insulin is

- A) horizontal.
- B) downward sloping.
- C) curvilinear.
- D) vertical.

Answer: D

20.



Refer to Figure . As price falls from P_A to P_B , the quantity demanded increases most along D_1 ; therefore,

- A) D_1 is unit elastic.
- B) D_1 is more inelastic than D_2 or D_3 .
- C) D_1 is more elastic than D_2 or D_3
- D) D_1 is elastic at P_A but inelastic at P_B .

Answer: C

21. Which of the following products comes closest to having a perfectly inelastic demand?

- A) gasoline
- B) cholesterol medication in general
- C) iPhones
- D) bus rides

Answer: B

22. When there few close substitutes available for a good, demand tends to be

- A) perfectly inelastic.
- B) perfectly elastic.
- C) relatively inelastic.
- D) relatively elastic.

Answer: C

23. A demand curve that is horizontal indicates that the commodity

- A) has few substitutes.
- B) must be very cheap.
- C) is a necessity.
- D) has a large number of substitutes.

Answer: D

24. The demand for all carbonated beverages is likely to be _____ the demand for Dr. Pepper.

- A) more elastic than
- B) perfectly elastic compared to
- C) less elastic than
- D) perfectly inelastic compared to

Answer: C

25. The demand for gasoline in the short run is

- A) elastic because people can easily switch to public transportation.
- B) perfectly inelastic because people have no choice but to buy gasoline.
- C) unit-elastic because people tend to consume a stable amount of gasoline per period.
- D) inelastic because there are no good substitutes for gasoline.

Answer: D

26. According to a study of the price elasticities of products sold in supermarkets, the price elasticity of demand for toothpaste is estimated at -0.45. Which of the following could explain why the price elasticity of demand for toothpaste is so low?

- A) The toothpaste industry is highly competitive.
- B) Toothpaste is relatively inexpensive.
- C) Toothpaste is heavily endorsed by dentists.
- D) There are few close substitutes for toothpaste.

Answer: D

27. If the price of steel increases drastically, the quantity of steel demanded by the building industry will fall significantly over the long run because

A) buyers of steel are more sensitive to a price change if they have more time to adjust to the price change.

B) buyers of steel are less sensitive to a price change if they have more time to adjust to the price change.

C) sales revenue in the building industry will fall sharply.

D) profits will fall by a greater amount in the long run than in the short run.

Answer: A

28. With the increased usage of cell phone services, what has happened to the price elasticity of demand for land-line telephone services?

A) It has become more price inelastic.

B) It has become more price elastic.

C) It has become more income elastic.

D) The absolute value of the price elasticity coefficient has probably gone down.

Answer: B

29. As high gasoline prices persisted into the first part of 2011, consumers began driving less and using public transportation more. Over time, this caused the demand curve for gasoline to become _____ and the quantity of gasoline demanded to _____.

A) more elastic; rise

B) more elastic; fall

C) less elastic; rise

D) less elastic; fall

Answer: B

30. The most important determinant of the price elasticity of demand for a good is

A) the definition of the market for a good.

B) the availability of substitutes for the good.

C) the share of the good in the consumer's budget.

D) whether the good is a necessity or a luxury.

Answer: B

31. Total revenue equals

A) price per unit times quantity sold.

B) price per unit times quantity supplied.

C) price per unit times change in quantity sold.

D) change in price per unit times quantity sold.

Answer: A

32. When demand is unit-elastic, a change in price causes total revenue to stay the same because

A) the percentage change in quantity demanded exactly offsets the percentage change in price.

B) buyers are buying the same quantity.

C) total revenue never changes with price changes.

D) the change in profit is offset by the change in production cost.

Answer: A

33. If a firm lowered the price of the product it sells and found that total revenue did not change, then the demand for its product is

- A) perfectly inelastic.
- B) perfectly elastic.
- C) unit-elastic.
- D) relatively elastic.

Answer: C

34. If a firm wanted to know whether the demand for its product was elastic, unit-elastic, or inelastic, then the firm could

- A) survey competitors and ask them what they think demand elasticity is for the product.
- B) talk to its customers.
- C) change price a little bit and observe what happens to total revenue.
- D) not do anything as there is no way to find an elasticity value.

Answer: C

35. A service station owner in Prince George, British Columbia, was worried that raising the price of gasoline would cause the quantity demanded to fall by so much that he would be in a worse situation than if he did not raise the price. If raising the price of gasoline would cause the owner to receive less total revenue from the sale of gasoline, the demand for gasoline is

- A) elastic.
- B) inelastic.
- C) unit elastic.
- D) perfectly inelastic.

Answer: A

36. Consider a demand curve that has a constant elasticity value of 0. What happens to quantity demanded and total revenue when price increases?

- A) The quantity demanded and total revenue remain the same.
- B) The quantity demanded does not change but total revenue increases.
- C) The quantity demanded and total revenue fall to zero.
- D) The quantity demanded does not change but total revenue decreases.

Answer: B

37. Suppose a decrease in the supply of bottled water results in a decrease in revenue. This indicates that

- A) the demand for bottled water is inelastic in the price range considered.
- B) the demand for bottled water is elastic in the price range considered.
- C) the supply of bottled water is inelastic in the price range considered.
- D) the supply of bottled water is elastic in the price range considered.

Answer: B

38. Suppose a decrease in the supply of wheat results in an increase in revenue. This indicates

that

- A) the decrease in quantity sold is proportionately larger than the resulting change in price.
- B) the resulting increase in price is proportionately greater than decrease in quantity sold.
- C) the demand curve for wheat must be vertical.
- D) the supply curve for wheat must be vertical.

Answer: B

39. Suppose the demand for milk is relatively inelastic. What happens to sales revenue if the government imposes a price floor above the free market equilibrium price in the market for milk?

- A) Sales revenue falls.
- B) Sales revenue rises.
- C) Sales revenue remains unchanged.
- D) It cannot be determined without information on prices.

Answer: B

40. Suppose the absolute value of the price elasticity of demand for meals at Fortune Buffet House is ∞ . What happens to sales revenue if the restaurant increases its price by 5 percent?

- A) Sales revenue falls by less than 5 percent.
- B) Sales revenue remains unchanged.
- C) Sales revenue falls by 100 percent.
- D) It cannot be determined without information on prices.

Answer: C

41. Which of the following statements is true?

- A) Whenever a firm raises its price, its total revenue will increase.
- B) When a firm lowers its price, its total revenue may either increase or decrease.
- C) Whenever a firm increases its quantity sold, its revenue will increase.
- D) Total revenue will equal zero when the demand for a product is unit-elastic.

Answer: B

42. Along a downward-sloping, linear demand curve, total revenue is the greatest

- A) where demand is normal.
- B) where demand is the most inelastic.
- C) where demand is the most elastic.
- D) where demand is unit-elastic.

Answer: D

43. Suppose a decrease in the supply of paper results in an increase in revenue. This indicates that

- A) the demand for paper is inelastic.
- B) the demand for paper is elastic.
- C) the supply of paper is inelastic.
- D) the supply of paper is elastic.

Answer: A

44. Suppose Tinsel Town Videos lowers the price of its movie club membership by 10 percent and as a result, CineArts Videos experienced a 16 percent decline in its movie club membership. What is the value of the cross-price elasticity between the two movie club memberships?

- A) -1.6
- B) -0.625
- C) 0.625
- D) 1.6

Answer: D

45. Suppose the cross-price elasticity of demand between grapefruit juice and orange juice is approximately 6. What does this mean?

- A) A 1 percent decrease in the price of grapefruit juice leads to a 6 percent increase in orange juice consumption.
- B) A 6 percent increase in the price of grapefruit juice leads to a 1 percent increase in orange juice consumption.
- C) If the price of grapefruit juice rises by \$1, 6 more cartons of orange juice will be purchased.
- D) The demand for orange juice is 6 times more than the demand for grapefruit juice.

Answer: A

46. For people who live near a bus route, a subway station, or a commuter rail line, public transportation provides a substitute to driving their own cars. So, for these people, the cross-price elasticity of demand between gasoline and public transportation is

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

Answer: A

47. If a good has a negative income elasticity of demand, this indicates that the good is

- A) a substitute with another good.
- B) a complement with another good.
- C) inferior.
- D) normal.

Answer: C

48. If a 5 percent increase in income leads to a 10 percent decrease in quantity demanded for a product, this product is

- A) an income elastic good.
- B) an inferior good.
- C) a necessity.
- D) a luxury good.

Answer: B

49. Demand for a luxury item, such as a yacht, is likely to be

- A) both income and price inelastic.
- B) both income elastic and price elastic.

- C) income elastic and price inelastic.
- D) income inelastic and price elastic.

Answer: B

Ch 8

1. Economists assume that the goal of consumers is to

- A) do as little work as possible to survive.
- B) make themselves as well off as possible.
- C) expend all their income.
- D) consume as much as possible.

Answer: B

2. Utility is

- A) easily measured in units called utils.
- B) subjective and difficult to measure.
- C) the consumption of a quasi-public good like electricity or natural gas.
- D) the production of a quasi-public good like electricity or natural gas.

Answer: B

3. As a consumer consumes more and more of a product in a particular time period, eventually marginal utility

- A) rises.
- B) is constant.
- C) declines.
- D) fluctuates.

Answer: C

4. If a consumer receives 22 units of marginal utility for consuming the first can of pop, 20 units from consuming the second, and 15 from the third, the total utility of consuming the three units is

- A) 57 utility units.
- B) 35 utility units.
- C) 15 utility units.
- D) unknown as more information is needed to determine the answer.

Answer: A

5. If a consumer receives 20 units of utility from consuming two donuts, and 25 units of utility from consuming three donuts, the marginal utility of the second donut is

- A) 25 utility units.
- B) 20 utility units.
- C) 5 utility units.
- D) unknown as more information is needed to determine the answer.

Answer: D

6. Total utility

- A) cannot decrease as a person consumes more and more of a good.
- B) has a constant rate of increase as a person consumes more and more of a good.
- C) is equal to the sum of the marginal utilities of all units consumed.
- D) is negative when marginal utility is declining.

Answer: C

7. The law of diminishing marginal utility states that

- A) eventually total utility falls as more of a good is consumed, other things constant.
- B) the extra satisfaction from consuming a good decreases as more of a good is consumed, other things constant.
- C) the extra satisfaction from consuming a good increases slowly as more of a good is consumed, other things constant.
- D) when the extra satisfaction from consuming a good becomes negative, total utility starts falling, other things constant.

Answer: B

8. Marginal utility can be

- A) negative.
- B) zero.
- C) positive.
- D) positive, negative or zero.

Answer: D

9. Which of the following is likely to occur as the result of the law of diminishing marginal utility?

- A) Petra's utility from her second apple was less than her satisfaction from her first orange.
- B) Hudson enjoyed his second slice of pizza more than his first.
- C) Sabine's utility from her first granola bar is greater than Rachel's utility from her second granola bar.
- D) Wesley enjoyed his second bottle of iced tea less than his first bottle, other things constant.

Answer: D

10. Consumers have to make trade-offs in deciding what to consume because

- A) not all goods give them the same amount of satisfaction.
- B) the prices of goods vary.
- C) they are limited by a budget constraint.

D) there are not enough of all goods produced.

Answer: C

11. If your total satisfaction increases when you consume another unit, your marginal utility must be

A) increasing.

B) decreasing.

C) negative.

D) positive.

Answer: D

12. Suppose your marginal utility from consuming the 3rd slice of cake is zero, then your total utility from consuming cake is

A) maximized.

B) decreasing.

C) negative.

D) increasing.

Answer: A

13. Consumers maximize total utility within their budget constraint by

A) buying the cheapest goods they can find.

B) buying whatever they like the best.

C) buying the goods with the largest marginal utility per dollar spent.

D) spending the same dollar amount for each good.

Answer: C

Quantity of Pita Wraps	Total Utility	Quantity of Bubble Tea	Total Utility
1	60	1	40
2	102	2	70
3	132	3	91
4	144	4	106
5	144	5	112
6	138	6	115
7	128	7	115

Keegan has \$30 to spend on Pita Wraps and Bubble Tea. The price of a Pita Wrap is \$6 and the price of a glass of Bubble Tea is \$3. Table 8.1 shows his total utility from different quantities of the two items.

14. **Refer to Table .** What is Keegan's optimal consumption bundle?

- A) 3 pita wraps and 3 bubble teas
- B) 3 pita wraps and 4 bubble teas
- C) 4 pita wraps and 2 bubble teas
- D) 5 pita wraps and 0 bubble teas

Answer: B

15. **Refer to Table** If Keegan can drink all the bubble tea he wants for free, how many glasses will he consume?

- A) 4 glasses
- B) 5 glasses
- C) 6 glasses
- D) 7 glasses

Answer: C

16. Carolyn spends her income on popular magazines and games for her smart phone. If the price of a magazine is four times the price of a game and if Carolyn is maximizing her utility, she buys

- A) both goods until the marginal utility of the magazine purchased is four times the marginal utility of the last game purchased.
- B) both goods until the marginal utility of the last game purchased is four times the marginal utility of the last magazine purchased.
- C) four times as many magazines as games.
- D) four times as many games as magazines.

Answer: A

17. Avner is maximizing total utility by buying sports magazines and protein supplements. For him to buy more sports magazines,

- A) the price of protein supplements has to fall.
- B) the price of sports magazines has to fall.
- C) the price of sports magazines has to rise.
- D) Since Avner is maximizing his utility, nothing can change the consumption of sports magazines.

Answer: B

18. If Valerie purchases ankle socks at \$5 and gets 25 units of marginal utility from the last unit, and bandanas at \$3 and gets 12 units of marginal utility from the last bandana purchased, she

- A) is maximizing total utility and does not want to change their consumption of ankle socks or bandanas.
- B) wants to consume more ankle socks and fewer bandanas.
- C) wants to consume more of bandanas and fewer ankle socks.
- D) wants to consume less of both ankle sock and bandanas.

Answer: B

19. If Marlowe obtains 9 units of utility per dollar spent on apples and 6 units of utility per dollar spent on oranges, then Marlowe
A) is maximizing total utility.
B) should buy more apples and fewer oranges.
C) should buy more oranges and fewer apples.
D) should buy fewer oranges and fewer apples.

Answer: B

20. If Callum is consuming his utility maximizing bundle and the price of one good rises, what happens to the marginal utility per dollar spent on this good (MU/P), and what should Callum do?

- A) MU/P has increased, and Callum should buy more of this good.
- B) MU/P has increased, and Callum should buy less of this good.
- C) MU/P has decreased, and Callum should buy more of this good.
- D) MU/P has decreased, and Callum should buy less of this good.

Answer: D

21. When the price of summer tank tops falls and you buy more of them because they are relatively less expensive, this is called

- A) the substitution effect.
- B) the income effect.
- C) the deadweight loss effect.
- D) the elasticity effect.

Answer: A

22. The substitution effect of an increase in the price of Raisin Bran refers to

- A) the decrease in the demand for Raisin Bran when its price rises.
- B) the result that consumers will now switch to a substitute good such as Cheerios, and the demand curve for Raisin Bran shifts to the left.
- C) the fact that the higher price of Raisin Bran lowers consumer's purchasing power, holding money income constant.
- D) the fact that the higher price of Raisin Bran relative to its substitutes, such as Cheerios, cause consumers to buy less Raisin Bran.

Answer: D

23. The income effect of an increase in the price of salmon

- A) is the change in the demand for salmon when income increases.
- B) refers to the relative price effect—salmon is more expensive compared to other types of fish—which causes the consumer to buy less salmon.
- C) refers to the effect on a consumer's purchasing power which causes the consumer to buy less salmon, holding all other factors constant.
- D) is the change in the demand for other types of fish, say trout, that result from a decrease in purchasing power.

Answer: C

24. If the price of lattes, a normal good you enjoy, falls,

A) the income and substitution effects offset each other, but the price effect leads you to buy more lattes.

B) both the income and substitution effects lead you to buy more lattes.

C) the income effect which causes you to increase your latte consumption outweighs the substitution effect which causes you to reduce your latte consumption, resulting in more lattes purchased.

D) the substitution effect which causes you to increase your latte consumption outweighs the income effect which causes you to reduce your latte consumption, resulting in more lattes purchased.

Answer: B

25. Which of the following is used to explain why a consumer's willingness to use Blackberry Messenger (BBM) increases as the number of other people who use Blackberry Messenger increases?

A) network externalities

B) market failure

C) diminishing marginal utility

D) the income effect of a price change

Answer: A

26. Economists would refer to the increase in product sales because of celebrity endorsements as being the result of

A) network externalities.

B) the endowment effect.

C) social influence.

D) the ultimatum game.

Answer: C

27. One explanation for the increase in product sales because of celebrity endorsements is that people seem to receive _____ from goods they believe are popular.

A) more utility

B) diminishing utility

C) greater network externalities

D) increased path dependency

Answer: A

28. Traditionally, economists have considered culture, customs, and religion as
- A) very important influences on the choices consumers make.
 - B) relatively unimportant factors in explaining the choices consumers make.
 - C) important influences in explaining consumer choices in command economies but less important in market economies.
 - D) subject to normative economic analysis rather than positive economic analysis.

Answer: B

29. What is behavioural economics?
- A) the study of how people make wealth-maximizing decisions
 - B) the study of how people behave in the face of scarcity
 - C) the study of situations in which people act in ways that are not economically rational
 - D) the study of how people make decisions at the margin

Answer: C

30. The observation that people tend to value something more highly when they own it than when they don't is called the
- A) wealth effect.
 - B) endowment effect.
 - C) path dependent effect.
 - D) endorsement effect.

Answer: B

31. If you exhibit the endowment effect as a decision maker, then you are
- A) deciding on the basis of sunk costs.
 - B) buying something you can't really afford because you expect to save in the future.
 - C) ignoring opportunity costs.
 - D) consuming based on celebrity endorsements.

Answer: C

32. Sunk costs
- A) are costs associated with repairing something you already own.
 - B) are important for optimal decision making.
 - C) are costs that have already been paid and cannot be recaptured in any significant way.
 - D) are costs that firms sink into marketing.

Answer: C

33. Which of the following is a common mistake consumers commit when they make decisions?
- A) They take into account nonmonetary opportunity costs but ignore monetary costs.
 - B) They are overly pessimistic about their future behaviour.
 - C) They fail to ignore sunk costs.
 - D) They sometimes value fairness too much.

Answer: C

34. Standard economic theory asserts that sunk costs are irrelevant in making economic decisions, yet studies conducted by behavioural economists reveal that sunk costs often affect economic decisions. Which of the following could explain this observation?

A) People measure the value of a good in terms of its purchase price.

B) Even though sunk costs cannot be recovered, it has been incurred and therefore should be treated as part of the product's value.

C) If consumers maximize their utility, it makes sense to consider the full purchase price of a product in their consumption decisions.

D) Sunk costs have a higher opportunity cost than costs that can be recovered.

Answer: A