# Price Theory I TFUs
# Practice Set 01

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1. The share of income spent on necessities declines with the level of income. Therefore, all necessities are inferior goods. (3.1.1).
2. A government price control imposed on the wholesale competitive market for a good will lower its retail competitive price. (3.3.1, Core 2002)
3. If corn and soybeans can be produced on the same land and are both used as animal feed, then a tax on soybeans will reduce the price of corn and increase corn production. (3.5.1, Final 1999)
4. A person volunteers to provide blood for hospitals when all blood is acquired by voluntary donations. Then the system changes to allow hospitals to also purchase blood and this person stops donating it. Such behavior cannot be derived from utility maximization if utility does not directly depend on whether blood can be purchased. (3.7.1, Core 1998)
5. Popular bands and musicians often price their tickets below the market clearing price and, as a result, such tickets sell out very quickly. In this case, they are not profit maximizing. (4.1.1)
6. If all production functions have constant returns to scale, then all supply curves in the economy are infinitely elastic. (4.3.1, Core 1996)
7. A per unit tax on an input used by a competitive industry will lower industry profits. (4.5.1, Core 2001)
8. Output prices will tend to grow faster in the sectors with higher rates of TFP growth. (4.7.1, Final 1999)
9. A decrease in market share for the dominant firm in an industry is an indication that the market has become more competitive. (4.9.1)