MULTIPLE CHOICE

1. If a consumer's income decreases, the budget constraint for Pepsi and pizza will
   a. shift outward, parallel to the old budget constraint.
   b. shift inward, parallel to the old budget constraint.
   c. rotate outward towards pizza because we can afford more pizza.
   d. rotate outward towards Pepsi because we can afford more Pepsi.

   ANS: B DIF: Average REF: 466

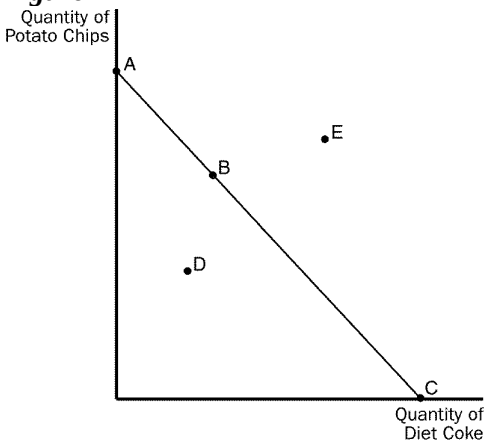
2. Assume that a college student spends her income on Coke and Snickers. The price of a Snickers candy bar is $0.50, and a can of Coke is $0.75. If she has $20 of income, she could choose to consume
   a. 10 Snickers bars and 20 cans of Coke.
   b. 15 Snickers bars and 18 cans of Coke.
   c. 22 Snickers bars and 14 cans of Coke.
   d. 24 Snickers bars and 12 cans of Coke.

   ANS: A DIF: Average REF: 466

3. An increase in income will cause a consumer's budget constraint to
   a. shift outward, parallel to its initial position.
   b. shift inward, parallel to its initial position.
   c. pivot around the "Y" axis.
   d. pivot around the "X" axis.

   ANS: A DIF: Average REF: 466

Figure 21-1



4. **Refer to Figure 21-1**. Which point in the figure represents the consumer's income divided by the price of Diet Coke?
   a. Point A
   b. Point C
   c. Point D
   d. Point E

   ANS: B DIF: Average REF: 466

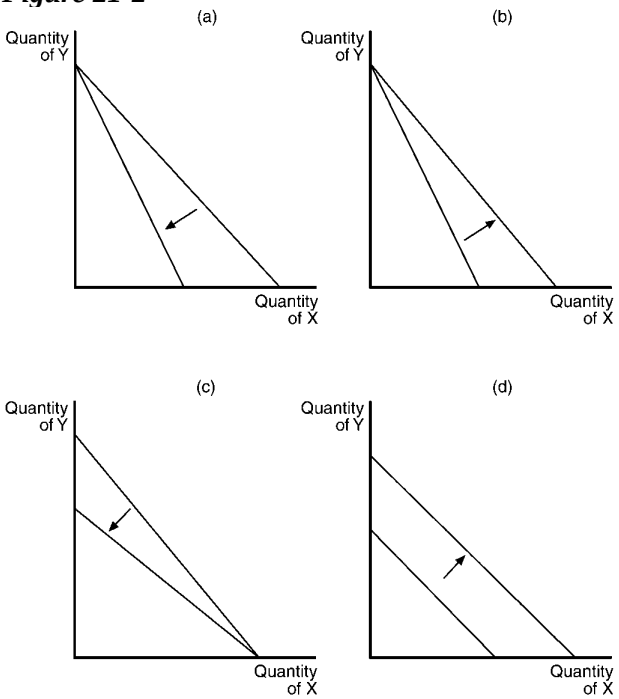
5. **Refer to Figure 21-1**. A consumer that chooses to spend all of her income in the figure will be at point(s)
   a. B
   b. E
   c. C or E
   d. A, B, or C

   ANS: D DIF: Easy REF: 466

6. **Refer to Figure 21-1**. All of the points identified on the figure represent possible consumption options with the exception of
   a. point D.
   b. point E.
   c. point B.
   d. None, all points are possible consumption options.

   ANS: B DIF: Easy REF: 466

Figure 21-2



7. **Refer to Figure 21-2**. Which of the graphs in the figure reflects a decrease in the price of good X only?
   a. graph (a)
   b. graph (b)
   c. graph (c)
   d. graph (d)

   ANS: B DIF: Average REF: 475

8. **Refer to Figure 21-2**. Which of the graphs in the figure reflects an increase in the price of good Y only?
   a. graph (a)
   b. graph (b)
   c. graph (c)

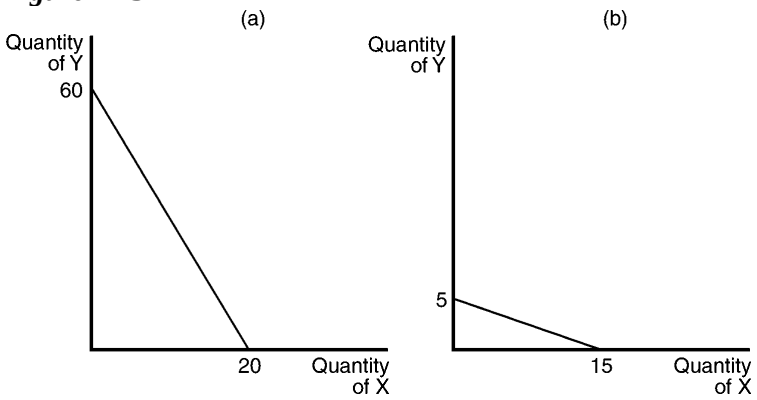
d. graph (d)

ANS: C DIF: Average REF: 475

9. **Refer to Figure 21-2**. Which of the graphs in the figure reflects an increase in consumer's income?
   a. graph (a)
   b. graph (b)
   c. graph (c)
   d. graph (d)

   ANS: D DIF: Easy REF: 475

Figure 21-3



10. **Refer to Figure 21-3**. In graph (a), if income is equal to $120, the price of good Y is
    a. $1.
    b. $2.
    c. $4.
    d. $6.

    ANS: B DIF: Average REF: 466

11. **Refer to Figure 21-3**. In graph (a), what is the price of good Y relative to good X (i.e., P_Y/P_X)?
    a. 1/3
    b. 1/4
    c. 3/1
    d. 3/4

    ANS: A DIF: Challenging REF: 466

12. **Refer to Figure 21-3**. In graph (b), what is the price of good X relative to good Y (i.e., P_X/P_Y)?
    a. 1/3
    b. 1/4
    c. 3/1
    d. 3/4

    ANS: C DIF: Challenging REF: 466

13. **Refer to Figure 21-3**. Assume that a consumer faces both budget constraints in graph (a) and graph (b) on two different occasions. If her income has remained constant, what has happened to prices?
    a. The price of X in graph (a) is higher than the price of X in graph (b).
    b. The price of Y in graph (a) is higher than the price of Y in graph (b).
    c. The prices of both X and Y are lower in graph (a).
    d. None of the above are true.

ANS: C DIF: Challenging REF: 466

14. The slope of an indifference curve is
    a. the rate of change of consumer's preferences.
    b. the marginal rate of preference.
    c. the marginal rate of substitution.
    d. always equal to the slope of the budget constraint.

    ANS: C DIF: Easy REF: 468

15. As long as a consumer is on the same indifference curve
    a. she is indifferent to all points which lie on any other indifference curves.
    b. her preferences will not affect the marginal rate of substitution.
    c. she is unable to decide which bundle of goods to choose.
    d. she is indifferent among the points on that curve.

    ANS: D DIF: Easy REF: 469

16. Crossing indifference curves would suggest that
    a. it is possible to demonstrate that a consumer does not prefer more to less.
    b. consumers are likely to prefer a redistribution of income from rich to poor.
    c. it facilitates the explanation of differences in consumption choices across individuals.
    d. it is possible to demonstrate that all standard properties of indifference curves are typically satisfied.

    ANS: A DIF: Average REF: 468

17. A bowed in indifference curve reflects a consumer's
    a. unwillingness to substitute one good for another.
    b. desire to specialize in the consumption of one good over another.
    c. decreasing willingness to give up a good that she has in abundance.
    d. increasing willingness to give up a good that she has in abundance.

    ANS: D DIF: Average REF: 468

18. Olga consumes two normal goods, X and Y, and is currently at an optimum. If the price of good X falls, we can predict with certainty that Olga's real income will rise
    a. and she will therefore consume more of both goods.
    b. but the substitution effect will insure that she consumes more X and less Y.
    c. so she will consume more of good X, but she might consume more, less, or the same of good Y.
    d. but the substitution effect will negate the positive effect of the rise.

    ANS: C DIF: Average REF: 469

19. Goods X and Y are perfect complements. If the price of good Y falls, then the substitution effect by itself will
    a. cause consumers to buy more of good Y and less of good X.
    b. cause consumers to buy more of good X and less of good Y.
    c. not affect the amount of goods X and Y that consumers buy.
    d. All of the above are correct.

    ANS: C DIF: Challenging REF: 471

20. Assume that your mother purchased 2 pairs of identical gloves for your birthday. "Left" gloves and "right" gloves in this case would provide a good example of
    a. perfect substitutes.
    b. perfect complements.
    c. negatively sloped indifference curves.
    d. positively sloped indifference curves.

    ANS: B DIF: Average REF: 471

21. The bowed shape of the indifference curve reflects the consumer's
    a. unwillingness to give up a good that he already has in large quantity.
    b. unwillingness to purchase a good that he already has in large quantity.
    c. greater willingness to give up a good that he already has in large quantity.
    d. greater willingness to purchase a good that he already has in large quantity.

    ANS: C DIF: Average REF: 470

22. When the price of pizza falls, the income effect, for normal goods Pepsi and pizza, causes a
    a. shift to a lower indifference curve so the consumer buys more Pepsi.
    b. shift to a higher indifference curve so the consumer buys more Pepsi.
    c. movement along the indifference curve so the consumer buys more Pepsi.
    d. movement along the indifference curve so the consumer buys less Pepsi.

    ANS: B DIF: Challenging REF: 476

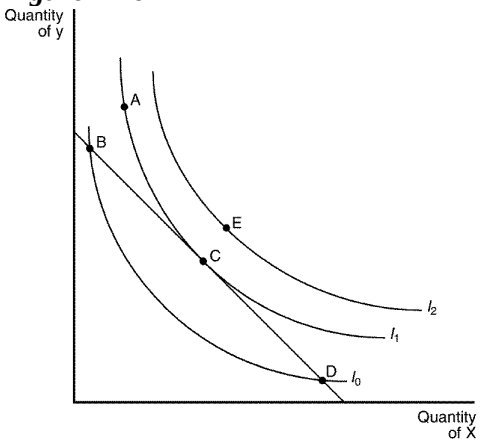
23. When the price of pizza falls, the income effect, for normal goods Pepsi and pizza, causes
    a. the consumer to feel richer, so the consumer buys more Pepsi.
    b. the consumer to feel richer, so the consumer buys less Pepsi.
    c. Pepsi to be relatively more expensive, so the consumer buys more Pepsi.
    d. Pepsi to be relatively less expensive, so the consumer buys less Pepsi.

    ANS: A DIF: Average REF: 476

24. A shift outward in the budget constraint will cause a consumer to buy
    a. less normal goods and more inferior goods.
    b. more normal goods and less inferior goods.
    c. more normal goods and more inferior goods.
    d. less normal goods and less inferior goods.

    ANS: B DIF: Average REF: 475

Figure 21-6



25. **Refer to Figure 21-6**. The consumer is likely to select the consumption bundle associated with
    a. point B
    b. point C
    c. point D
    d. point E

    ANS: B DIF: Easy REF: 473

26. **Refer to Figure 21-6**. It would be possible for the consumer to reach I_2 if
    a. the price of Y increases.
    b. the price of X increases.
    c. income increases.
    d. All of the above would be correct.

    ANS: C DIF: Easy REF: 473

27. A consumer is currently consuming some of good X and some of good Y. If good Y is a normal good for this consumer, a rise in consumer income will definitely cause
    a. an increase in the consumption of X.
    b. an increase in the consumption of Y.
    c. a decrease in the consumption of X.
    d. a decrease in the consumption of Y.

    ANS: B DIF: Easy REF: 473

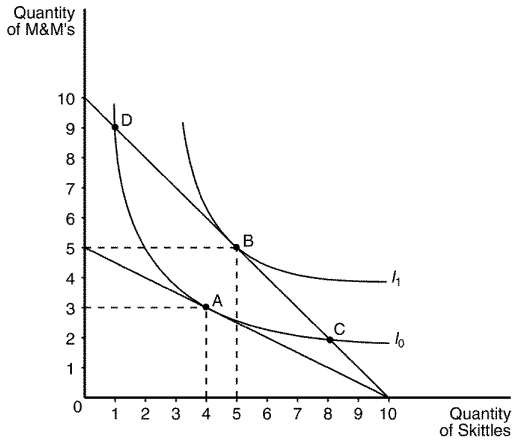
28. If the price of a good increases, ceteris paribus, consumers perceive
    a. an increase in purchasing power if the good is an inferior good.
    b. an increase in income if the price increase occurs for a normal good.
    c. a decrease in purchasing power.
    d. a net gain in income if they increase consumption of some goods.

    ANS: C DIF: Average REF: 477

29. When the price of a good increases, ceteris paribus, the higher price
    a. contracts the consumer's set of buying opportunities.
    b. leads to a parallel shift of the linear budget constraint.
    c. will necessarily lead to an increase in the consumption of goods whose price did not change.
    d. generally discourages the consumption of inferior goods.

    ANS: A DIF: Average REF: 477

Figure 21-7



30. **Refer to Figure 21-7**. Assume that the consumer depicted in the figure has an income of $20. The price of Skittles is $2 and the price of M&M's is $4. This consumer will choose a consumption bundle where the marginal rate of substitution is
    a. 2.
    b. 2/3.
    c. 1/2.
    d. 1/3.

    ANS: C DIF: Average REF: 477

31. **Refer to Figure 21-7**. Assume that the consumer depicted in the figure has an income of $20. The price of Skittles is $2 and the price of M&M's is $2. This consumer will choose to optimize by consuming
    a. bundle A.
    b. bundle B.
    c. bundle C.
    d. bundle D.

    ANS: B DIF: Average REF: 477

32. **Refer to Figure 21-7**. Assume that the consumer depicted in the figure faces prices and income such that she optimizes at point B. According to the graph, what change forces the consumer to move to point A?
    a. a decrease in the price of Skittles
    b. a decrease in the price of M&M's
    c. an increase in the price of Skittles
    d. an increase in the price of M&M's

    ANS: D DIF: Average REF: 477

33. What are the two effects of a change in the price that a consumer experiences?
    a. the income effect and the budget effect
    b. the complement effect and the substitute effect
    c. the price effect and the preference effect
    d. the income effect and the substitution effect

    ANS: D DIF: Average REF: 476

34. If goods are perfect substitutes, the income effect of a price change
    a. is always positive.
    b. is zero.

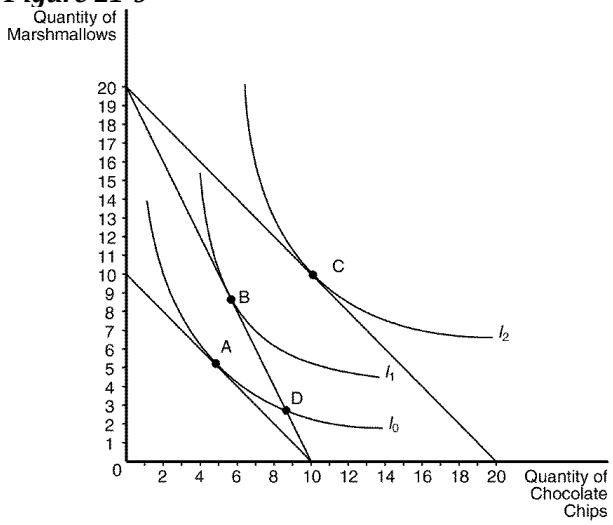
c. is always negative.
d. cannot be determined.

ANS: D DIF: Challenging REF: 476

35. A Giffen good can be explained as a good for which an increase in the price
a. decreases the quantity supplied.
b. increases the quantity supplied.
c. decreases the quantity demanded.
d. increases the quantity demanded.

ANS: D DIF: Easy REF: 477

Figure 21-9



36. **Refer to Figure 21-9**. Assume that the consumer depicted in the figure has an income of $100 and the price of a bag of marshmallows is $5. The optimizing consumer will choose to purchase which bundle of marshmallows and chocolate chips?
a. bundle A
b. bundle B
c. bundle C
d. bundle D

ANS: C DIF: Average REF: 476

37. **Refer to Figure 21-9**. Assume that the consumer depicted in the figure has an income of $100 and currently optimizes at point A. When the price of marshmallows decreases to $5, the optimizing consumer will choose to purchase how many units of marshmallows?
a. 20
b. 10
c. 9
d. 4

ANS: C DIF: Average REF: 476

38. **Refer to Figure 21-9**. Assume that the consumer depicted in the figure has an income of $100. If the price of chocolate chips is $10.00 and the price of marshmallows is $10.00, the optimizing consumer would choose to purchase
a. 9 marshmallows and 6 chocolate chips.
b. 10 marshmallows and 10 chocolate chips.

c. 5 marshmallows and 5 chocolate chips.
d. 3 marshmallows and 9 chocolate chips.

ANS: C DIF: Average REF: 476

39. **Refer to Figure 21-9**. Assume that the consumer depicted in the figure has an income of $200. If the price of chocolate chips is $10.00 and the price of marshmallows is $10.00, the optimizing consumer would choose to purchase
a. 9 marshmallows and 6 chocolate chips.
b. 10 marshmallows and 10 chocolate chips.
c. 5 marshmallows and 5 chocolate chips.
d. 3 marshmallows and 9 chocolate chips.

ANS: B DIF: Challenging REF: 476

40. **Refer to Figure 21-9**. Assume that the consumer depicted in the figure has an income of $100. Which of the following price-quantity combinations would be on her demand curve for marshmallows if the price of chocolate chips is $10?
a. $2.50, 4
b. $2.50, 9
c. $5, 4
d. $5, 9

ANS: D DIF: Challenging REF: 476

41. **Refer to Figure 21-9**. Assume that the consumer depicted the figure has an income of $50. Which of the following price-quantity combinations would be on her demand curve for marshmallows if the price of chocolate chips is $5?
a. $2.50, 4
b. $2.50, 10
c. $5, 4
d. $5, 10

ANS: C DIF: Challenging REF: 476

42. Given a consumer's indifference map, the demand curve for a good can
a. be derived by moving a consumer's budget constraint as her income rises.
b. be derived by moving a consumer's budget constraint as her income rises and she makes choices.
c. be derived by moving a consumer's budget constraint as the market price changes.
d. not be derived from consumer theory.

ANS: C DIF: Average REF: 478

43. The income effect of a price change is
a. a change in the slope of the budget constraint.
b. a parallel shift of the budget constraint.
c. a parallel shift and a change in the slope of the budget constraint.
d. not observable and so is neither a shift nor a change in the slope of the budget constraint.

ANS: B DIF: Average REF: 476

44. The substitution effect is
a. a pure change in the marginal rate of substitution.
b. a pure change in consumer welfare.
c. a change in consumer welfare and a change in the marginal rate of substitution.

d. None of the above are correct.

ANS: A DIF: Challenging REF: 476

45. A Giffen good is one in which the quantity demanded rises as the price rises because the income effect
a. reinforces the substitution effect.
b. reinforces and is greater than the substitution effect.
c. counteracts but is smaller than the substitution effect.
d. counteracts and is greater than the substitution effect.

ANS: D DIF: Average REF: 477